EAST/WEST ECONOMIC RELATIONS

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BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY

OF THE

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EAST/WEST ECONOMIC RELATIONS

WEDNESDAY, SEPTEMBER 16, 1981

UNITED STATES SENATE,
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY,
COMMITTEE ON FOREIGN RELATIONS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:14 a.m., in room 4221, Dirksen Senate Office Building, Hon. Charles McC. Mathias (chairman of the subcommittee) presiding.

Present: Senators Mathias and Percy.

The CHAIRMAN. The committee will come to order.

The Subcommittee on International Economic Policy will receive testimony this morning from administration witnesses who will report on current issues in East-West economic relations and discuss prospects for achieving a cohesive, effective Western policy.

Economic relations with Communist countries confront the United States and its allies with dilemmas of increasing complexity and urgency. Western participation in the development of the Soviet Union's oil and gas resources is but one example of how economic and political factors can become interwoven: Exports of Western equipment in exchange for imports of natural gas from the U.S.S.R. seem economically attractive to the West, as does the increase in oil and gas supplies anywhere in the world. But Western dependence on the Soviet Union for energy supplies and allowing the Soviet Union to acquire hard currency while relieving bottlenecks in their inefficient economy, temper the attractiveness of facilitating energy projects in the U.S.S.R. Larger political considerations involving both the Soviet Union and our NATO allies must also be brought to bear on the formation of an overall U.S. policy.

The questions do not stop with trade with the Soviet Union. China, in a very short time, has become the largest purchaser of United States products among the Communist States. Questions of exporting strategic items to China and of providing Western credits to China must turn on political as well as economic calculations.

Poland poses unique problems for the United States and its allies. Poland is a major trading partner (and debtor) to several Western nations, but commercial considerations alone are surely an insufficient guide for responding to the situation there.

The purpose of the subcommittee's hearing today is to review the status of economic relations with Communist nations conducted by the United States and other Western countries, and to try to identify the principles which ought to guide Western policy. I emphasize the term "Western policy" because the only sound policy is one which can command the support of our major allies.

The United States can exercise leadership in pointing the way to an effective allied policy, but we must be under no illusion that the United States can "go it alone" in determining East-West economic relations. Any such attempt would undercut the increased allied cooperation which is our most urgent order of business. And would inevitably be doomed to failure, as past experience should have taught us.

Mr. Brady, we will ask you to begin immediately.

As I am sure everyone in the room knows, Mr. Brady is the Assistant Secretary of Commerce for Trade Administration.

STATEMENT OF HON. LAWRENCE BRADY, ASSISTANT SECRETARY FOR TRADE ADMINISTRATION, DEPARTMENT OF COMMERCE

Mr. BRADY. Thank you, Mr. Chairman.

I want to thank you and the subcommittee for the opportunity to testify about East-West trade, including the administration's approach to export controls.

In your request you directed a number of questions to the Department. I would like to touch on each within a broad overview of East-West economic relations. My remarks will focus on the administration's trade and export control policy toward Communist nations, particularly the Soviet Union. The U.S.S.R. offers the greatest challenge and threat to our national security and the security of the Western alliance.

My statement will briefly outline the trends in commercial relations between the Western industrial nations and the Eastern centrally planned economies during the past decade. It will analyze the relative importance of the United States role in those relations.

Next, it will examine the economic and political reasons why the Reagan administration believes a reevaluation of U.S. trade policies is called for as we continue into the 1980's.

Third, I will indicate the administration's central concerns and objectives in its review of East-West trade and export control policy within the context of overall East-West relations.

I will not discuss general U.S. trade policy. This administration believes strongly in moving toward an open non-protectionist free world trading system. Rather, I will examine the strategic implications of trade with the Soviet Union and the Warsaw Pact countries.

During the past decade the United States increased its trade with the Soviet Union and Eastern Europe on the assumption that more extensive trade ties would encourage the U.S.S.R. to moderate its behavior both in the international family of nations and within its own system. The U.S. Government gradually reduced its export control list during these years and revised its export control statute to enunciate a policy to encourage trade and cooperation between the Soviet bloc and the United States.

The revisions also focused control authority more narrowly on those exports which could make a significant contribution to the military potential rather than the economic potential of the Soviet bloc. The policy approach to Eastern Europe was differentiated for political reasons. Thus, past administrations in effect deemphasized the national security dimensions of trade between the Soviet and

Eastern European state trading organizations and the U.S. Government and business sectors.

Serious controversy surrounded the expansion of United States-Soviet commercial ties during the 1970's, reflecting different perceptions of the nature of the Soviet threat to the United States and of the way in which this threat should be faced. Nevertheless, those who claimed that East-West trade restrictions should be liberalized were successful in setting the policy. They asserted that the basic premises that underlay the Export Control Act of 1949 were no longer valid in that: one, the Sino-Soviet bloc was no longer monolithic; two, the goods withheld from the Soviet Union by the United States could be obtained elsewhere; and, three, that the attempts of the United States to impose unilateral export controls more severe than those of its allies were futile.

Therefore, successive revisions of the Export Administration Act, beginning in 1969, shifted the emphasis from controlling trade to encouraging trade.

During the 1970's the U.S. Government and business sectors created an extensive apparatus to facilitate U.S. commercial ties with the Soviet bloc countries. As a result, U.S. exports to six East European countries rose from $220 million in 1971 to $1.3 billion in 1975, and $2.4 billion in 1980. Exports to U.S.S.R. increased from $160 million in 1971 to $1.8 billion in 1975, and $1.5 billion in 1980.

U.S trade with the People's Republic of China [PRC], took off during the last half of the 1970's, when exports surged from $304 million in 1975 to $3.7 billion last year, in 1980. The jump in U.S. exports to the PRC from $1.7 billion in 1979 to their 1980 level accompanied a political decision to promote friendlier U.S.-PRC relations. Agricultural exports accounted for $1.2 billion of the $2 billion increase.

These magnitudes of U.S. trade with the nonmarket economies form a relatively small component of total U.S. foreign trade and a minor component of the U.S. economy. U.S. worldwide trade last year was $465 billion and the overall trade deficit was over $24 billion. The Warsaw Pact countries and the PRC accounted for only 3.5 percent of U.S. exports and 1 percent of U.S. imports (see table 1). Trade with the East is not expected to become a critical factor in the U.S. balance of trade in the foreseeable future.

TABLE 1.—U.S. TRADE WITH COMMUNIST COUNTRIES

[In millions of U.S. dollars]

	1971	1975	1976	1977	1978	1979	1980	January to June 1981
U.S. exports:								
Albania		0.7	1.1	2.2	4.5	10.1	6.9	1.0
Bulgaria	4.4	29.3	43.3	23.9	48.1	56.2	160.7	154.0
Czechoslovakia	37.9	52.9	147.5	74.0	105.4	281.1	185.1	50.5
German Democratic Republic	24.9	350.3	418.0	245.0	203.4	402.8	558.4	203.9
Hungary	27.7	76.1	63.0	79.7	97.7	77.6	79.0	42.7
Poland	73.1	580.1	621.0	436.5	677.0	786.3	710.5	439.3
Romania	52.4	189.3	249.4	259.4	317.4	500.5	720.2	383.0
Total, Eastern Europe	220.4	1,278.7	1,542.9	1,120.7	1,453.5	2,114.6	2,420.8	1,274.3

TABLE 1.—U.S. TRADE WITH COMMUNIST COUNTRIES—Continued

[In millions of U.S. dollars]

	1971	1975	1976	1977	1978	1979	1980	January to June 1981
U.S.S.R.	160.5	1,832.7	2,305.9	1,623.5	2,249.0	3,603.6	1,509.7	1,065.5
People's Republic of China		303.6	135.4	171.3	818.2	1,716.5	3,749.0	1,860.6
Total, Communist countries	380.9	3,415.0	3,984.2	2,915.5	4,520.7	7,434.7	7,679.5	4,200.4
U.S. imports:								
Albania	.3	2.8	2.7	3.4	3.5	8.8	10.7	2.1
Bulgaria	2.6	20.2	27.0	18.0	19.1	34.7	24.9	22.9
Czechoslovakia	23.6	34.6	36.4	36.6	58.0	50.9	65.9	33.4
German Democratic Republic	10.1	11.3	13.6	16.8	35.3	36.4	44.1	23.7
Hungary	7.8	34.7	49.0	46.6	68.5	112.2	107.5	64.2
Poland	107.2	243.1	318.8	329.1	438.9	426.5	416.7	209.4
Romania	13.8	133.0	198.8	233.3	346.6	329.3	312.2	285.4
Total, Eastern Europe	165.4	479.6	646.2	683.7	969.8	998.8	982.0	641.2
U.S.S.R.	56.8	254.2	220.6	234.3	540.4	873.2	452.9	211.1
People's Republic of China	4.9	158.3	201.9	202.7	324.0	592.3	1,058.3	872.5
Total, Communist countries	227.1	892.2	1,068.7	1,834.2	1,834.2	2,464.2	2,493.2	1,724.8
Trade balance	+153.2	+2,522.8	+2,915.5	+1,081.3	+2,686.5	+4,973.5	+5,186.3	+2,475.6
Total, two-way trade	608.6	4,307.2	5,052.9	4,749.7	6,354.9	9,898.9	10,172.7	5,475.2

Source: U.S. Department of Commerce

The United States has always accounted for only a small share of the Eastern market relative to other countries of the industrialized West. Since World War II the United States has never held more than 10 or 15 percent of the total Western trade with the Warsaw Pact and the PRC. A variety of reasons other than export controls explain this fact.

Because the United States has a vast domestic market, we have traditionally been less active in foreign trade than Japan or Western Europe. More important, however, has been the willingness of Western European countries to reestablish ties with their former natural trading partners.

Tables 2 and 3 show industrial nations' trade with the Communist countries for 1980.

TABLE 2.—INDUSTRIAL NATIONS' [1] EXPORTS (1980) TO COMMUNIST COUNTRIES

[In millions of dollars]

Country	U.S.S.R.		Eastern Europe		People's Republic of China		Total Communist		Total exports to world	Share to Communist market of world total
	Dollar	Percent	Dollar	Percent	Dollar	Percent	Dollar	Percent		
United States	1,510	7.6	2,340	10.3	3,749	31.0	7,599	13.9	220,705	3.4
Federal Republic of Germany	4,373	22.1	8,297	36.5	1,145	9.5	13,815	25.3	191,688	7.2
France	2,465	12.4	2,182	9.6	304	2.5	4,951	9.1	111,311	4.4
Italy	1,276	6.4	1,412	6.2	228	1.9	2,916	5.3	77,908	3.7
United Kingdom	1,060	5.4	1,569	6.9	395	3.3	3,024	5.5	115,176	2.6
Japan	2,773	14.0	754	3.4	4,761	39.4	8,298	15.2	129,584	6.4
Canada	1,317	6.7	454	2.0	743	6.1	2,514	4.6	64,939	3.9

TABLE 2.—INDUSTRIAL NATIONS' [1] EXPORTS (1980) TO COMMUNIST COUNTRIES—Continued

[In millions of dollars]

Country	U.S.S.R.		Eastern Europe		People's Republic of China		Total Communist		Total exports to world	Share to Communist market of world total
	Dollar	Percent	Dollar	Percent	Dollar	Percent	Dollar	Percent		
Other	5,035	25.4	5,564	24.5	766	6.3	11,365	20.8	NA	NA
Total	19,809	100.0	22,706	100.0	12,091	100.0	54,606	100.0	NA	

[1] The 17 industrial west nations are: Belgium, Luxembourg, Denmark, Federal Republic of Germany, France, Ireland, Italy, Netherlands, United Kingdom, Austria, Canada, Finland, Japan, Norway, Sweden, Switzerland and United States.

Source: U.S. Department of Commerce.

TABLE 3.—INDUSTRIAL NATIONS' [1] TWO-WAY TRADE WITH COMMUNIST COUNTRIES AND MARKET SHARES

[In millions of dollars]

Country	U.S.S.R.		Eastern Europe		People's Republic of China		Total Communist	
	Dollar	Percent	Dollar	Percent	Dollar	Percent	Dollar	Percent
United States	1,963	4.6	3,435	8.0	4,807	23.6	10,205	9.6
Federal Republic of Germany	8,350	19.5	15,987	37.5	1,949	9.6	26,286	24.8
France	6,030	14.1	3,868	9.1	772	3.8	10,670	10.1
Italy	4,047	9.5	3,748	8.8	659	3.2	8,454	8.0
United Kingdom	2,888	6.7	2,715	6.4	751	3.7	6,354	6.0
Japan	4,352	10.2	1,022	2.4	8,997	44.1	14,371	13.6
Canada	1,368	3.2	637	1.5	876	4.3	2,881	2.7
Other	13,803	32.2	11,263	26.4	1,587	7.8	26,653	25.2
Total	42,801	100.0	42,674	100.0	20,398	100.0	105,873	100.0

[1] The 17 industrial west nations are: Belgium, Luxembourg, Denmark, Federal Republic of Germany, France, Ireland, Italy, Netherlands, United Kingdom, Austria, Canada, Finland, Japan, Norway, Sweden, Switzerland and United States.

Source: U.S. Department of Commerce.

Another reason unrelated to export controls for the small U.S. share of East-West trade relative to Western Europe, has been the lack of reciprocal demand between the United States and the Warsaw Pact economies. Whereas the nonmarket economies have an almost insatiable demand for Western grains, machinery, consumer goods and advanced technologies, the United States has imported primarily raw materials and semimanufactured goods.

American consumers have expressed little demand for Eastern manufactured goods that are usually inferior to Western quality, although in recent years one is seeing more clothing, textiles and shoes from the East on the U.S. market. The Soviet bloc competes with the developing countries for the U.S. market in several of these areas.

It has been suggested by U.S. businessmen that more joint ventures and U.S. investment in the Soviet bloc nations can improve the quality of their consumer goods, leading to greater volumes of two-way trade with the United States. There is also concern about the economic effects of such investment.

These nonmarket economy countries, in which prices and labor costs are not set by the free market, could dump goods produced with Western technology back onto the Western markets. The United States and West European chemical industries have already felt the economic repercussions of "buy back" transactions. These entail taking back products produced by Western-built and

equipped plants in payment for exports of technology and plant equipment.

The West European countries have also offered officially subsidized export credits to the East European nations and the Soviet Union. For political, philosophical, and practical economic reasons, the United States competes with such subsidies only on a selective basis. The West Europeans have greatly increased the magnitude of government intervention into export development and finance in recent years. The United States is trying to limit these subsidies through international negotiations.

The debt obligations of Communist countries to the West are an important part of the overall East-West trade picture. First, credits have been extended liberally in the past 10 years because the U.S.S.R. and Eastern Europe have been considered to be good risks. Last year, however, total Western credits extended to these countries reached almost $80 billion.

This debt is now becoming a serious source of concern for Western banks, as well as for Western security analysts. Of considerable importance in viewing the subject of credits is the contemplated building of one or two Soviet pipelines to Western Europe, financed with credits from a consortium of Japanese and West European banks.

In summary, the important of U.S. exports by dollar value relative to the total value of East-West trade has been small in comparison with Western Europe and Japan. In 1980, that share was $7.6 billion out of $54.6 billion total Western exports to the Warsaw Pact countries and the PRC. However, the United States and its allies must now reappraise how ongoing commercial flows to the Warsaw Pact nations affect the strategic balance and our national security as a whole.

Shifts in East-West trade policy can have long-range implications for power relationships within the international community. The failure to adequately regulate trade flows in the past has led to greater U.S. defense costs. Today the administration is faced with harsh budgetary choices. If Western nations are to avoid excessive increases in their defense budgets, the strategic liabilities of East-West economic integration must be recognized.

Thoughout the 1970's the integration of the nonmarket economies into the global trading system has produced very different kinds of benefits for the United States and the Soviet Union. On the one hand, trade has conferred primarily commercial advantages on the United States.

First, the U.S.S.R. and Eastern Europe provide expanded markets for a relatively small number of U.S. businesses and many U.S. farmers. This has been welcome in a period of shrinking foreign market opportunities.

Second, prior to the invasion of Afghanistan the United States realized a progressively larger surplus in its trade with Warsaw Pact nations that helped offset our annual trade deficit.

And, third, exports to Eastern countries have created jobs for the U.S. economy.

We cannot ignore, however, that transfers of dual use technology financed with export credits have conferred on the Warsaw Pact countries the production and the technical know-how and equip-

ment needed to accelerate the modernization of key sectors of their military-industrial base. Such transfers contributed to the Soviet achievement of strategic parity with the United States by the late 1970's. Morever, there is growing concern that expanded ties between Communist nonmarket economies and the market economies of Europe has led to a weakening in the cohesion of NATO.

These two sets of advantages—the one conferred on the Warsaw Pact countries and the other on the United States—must be weighed in deciding our future course of action in trade with the Soviet bloc. Under conditions of strategic parity, victory in any future conflict may well belong to those who are successful in areas of nonmilitary competition. While commercial interests must and will be taken into account in U.S. trade policies toward the U.S.S.R. and other nonmarket economies, security concerns must be paramount.

One of these concerns deals with how the Soviet Union profits from its imports of Western-origin goods and technology. Given the size and diversity of its economy the U.S.S.R. retains an extremely low ratio of foreign imports to gross domestic product. Nonetheless, it would be wrong to assume that foreign trade does not play a central role in the achievement of important Soviet domestic and foreign policy objectives.

From the domestic persepctive, expanded commercial ties with the West have traditionally been the means by which chronic problems in the economy could be overcome. The Soviet chemical industry has relied heavily on imports of Western equipment and technology. By the end of the 1970's Western equipment accounted for an estimated two-thirds or more of Soviet polyethylene, polypropylene, polyester fiber, and acrylic fiber production.

Likewise, Soviet progress in computers in the last 15 years has essentially been a replication of Western experience and U.S. companies and their foreign affiliates have been the source for the greatest share of these imports.

The Soviet automotive and truck industry surged ahead with infusion of Western capital equipment and know-how in the 1930's and again in the 1970's.

In sum, Soviet leaders have realized numerous advantages by pursuing expanded East-West commercial ties. Western imports of technology and equipment enable them to benefit from the technology innovations of democratic societies. They enable them to infuse technological and financial quick-fixes into the industrial base that on occasion translate into increases in military and strategic capabilities.

It enables them to redirect resources from the civilian to the military sector and to alleviate persistent problems of declining labor productivity and other production bottlenecks that retard growth in the Soviet economy. Soviet planners anticipate that imports will play an essential role in the success of their 11th 5-year plan, which began this year.

In meeting foreign policy objectives the U.S.S.R. has also been able to realize significant gains through trade. Soviet trade is state-controlled and is thus politicized. Due to the nature of their command economy, Soviet leaders have been able to closely coordinate

trade, defense, and international relations policies to try to meet their objectives.

The United States has lacked a mechanism to monitor and regulate East-West trade that effectively integrates trade policy with political and national security interests.

To a certain extent the U.S.S.R. has been successful in manipulating commercial and political rivalries among non-Communist nations in order to further its own objectives. There are several ways in which the U.S.S.R. is able to use its external commercial relationships for strategic advantage.

The trend toward increasing dependence of Western industry on Soviet bloc markets provides the U.S.S.R. with the opportunity to encourage the West to emphasize commercial interests over security considerations. As a result, the effectiveness of the multilateral export control system has been weakened.

Expanded East-West trade and the worldwide search for new markets creates constituencies in the United States and the allied nations that makes the balancing of commercial benefits and strategic considerations a more difficult process.

And as the centrally planned economies increase production for Western markets, exports could be used to reward or punish other nations.

In short, the U.S.S.R. has the capability to exploit vulnerabilities produced by increased global economic interdependence.

Perhaps the most ominous possibility is that the U.S.S.R. is pursuing what some have called the two-track strategy to destroy the cohesion of the Western alliance. On the one hand, the U.S.S.R. seeks to increase European dependence on its Siberian resource base, particularly for natural gas.

On the other hand, during the 1970's the Soviet Union has instigated turmoil in areas of the world where the United States and its allies must seek raw materials and energy essential to their economies.

For these reasons, the administration has expressed concern over the strategic implications of the proposed Siberia to Western Europe natural gas pipeline.

We recognize the need to form a coherent export control policy. Over the last several months we have been carefully reviewing our policy on trade with Soviet Union. We will be reviewing trade policy with Eastern Europe in the coming months. This review is taking place in the context of overall East-West relations and export control policy.

Our feeling is, based on the policy review, that we may have to tighten strategic trade control on goods and technology which can upgrade Soviet production in areas relevant to their military strength. In my view, we must place greater focus on controlling technology and process know-how, which the Soviet Union is anxious to acquire for expanding their military-industrial capabilities.

Consistent with this tightening at the top of the export control list we will strive for decontrol of products at the lower end of the technology spectrum. Our purpose is not to stop trade with the Soviet Union, but rather to manage the flow of trade to protect our national security interests. In this I believe we share the aspira-

tions of the American business community to trade while safeguarding U.S. national interests.

This administration will place highest priority on consultation with our allies as we formulate new East-West trade policies. In 1950 this country and its allies first worked out a control policy for trading with the Soviet Union and other bloc nations. The International Coordinating Committee [COCOM], composed of our NATO allies—minus Iceland but including Japan—is responsible for regulating the export of strategic items. This body has remained virtually unchanged as an informal deliberative body for a quarter of a century.

Quite frankly, COCOM needs rejuvenating. Even the strategic criteria on which the institutional structure rests may require examination. Working with our allies on export controls is vital, in that we know that unilateral controls are less than effective.

The first step toward strengthening the COCOM multilateral trade control structure was taken this past July in Ottawa. President Reagan presented the administration's concerns about Western security to the other major industrial leaders of the world. He stressed the need for the West to place its system of cooperative controls high on its diplomatic agenda. The leaders agreed. Set forth in the Ottawa communique is a commitment to "consult to improve the present system of controls on trade and strategic goods and related technology with the U.S.S.R."

We are preparing to meet with the allies to begin discussing improvements in the international system of security controls, including closer harmonization of national licensing procedures and greatly expanded enforcement efforts. The meeting will be at the subcabinet level. We are determined to lead in this multilateral approach to strengthen the international security controls system.

We believe that the administration's policy review will significantly improve our system of national security export controls. At the same time, we will streamline the processing of export license applications so that exports that do not affect our security are not unnecessarily penalized.

In addition to developing clear policy guidelines, we are instituting management reforms to assure that license applications are processed within the statutory deadlines. For example, we are introducing an automated licensing system to speed up the processing of export license applications. We are also committed to eliminating the backlog of overdue license determinations by mid-October of this year.

Secretary Baldrige and Under Secretary Olmer both feel very strongly about the need to improve the licensing process. At the top of their list of priorities is the need to provide the business community with predictability and consistency in export control decisions. I believe we will be able to accomplish both objectives with our new policy.

Mr. Chairman, we must not, through our economic relations, increase the capacity of the U.S.S.R. to wage war, and we must develop a consensus among our allies that to do otherwise would be contrary to our mutual interests.

Mr. Chairman, there's only one other point, which is not in my statement, that I'd make. And that is that this President is fairly

proud about having kept and about keeping the commitments he made during the campaign and the commitments made in the Republican platform. I believe the review, the raising of the issue in Ottawa this summer, and the subsequent negotiations which we're going to become involved in fulfill that commitment he made both during the campaign and on the Republican platform dealing with this issue.

The CHAIRMAN. Thank you very much, Mr. Brady.

Let me first recognize the chairman of the full committee, Senator Percy.

Senator PERCY. Thank you, Mr. Chairman.

I will not be able to stay here for too long. I appreciate very much your chairing these hearings.

Mr. Brady, I would like to tell you that my prejudice on this particular issue comes from personal experience and what I consider to be an utterly stupid policy of the U.S. Government for many years with respect to East-West trade. I think it was a policy designed to undercut the American economy, to weaken us economically and I cannot imagine that other countries did not simply applaud what we were doing.

Let me give you a specific illustration which I mentioned before the Governmental Affairs Committee hearing several years ago. During the war the United States purchased, on lend-lease, for the Soviet Union big film printers, perforators and professional equipment for their motion picture industry. Apparently it was deemed in the interest of the United States that they have this large equipment. These were multimillion-dollar purchases.

When the war ended the equipment went from Bell and Howell to the Soviet Union. The Soviets got used to American equipment and wanted to keep buying it. But suddenly our Export Control Act prohibited this, years later, that is. It prohibited the Soviet Union from buying such equipment.

The Bell & Howell Co. had a license with the J. Arthur Rank organization of England. The equipment was identical—nuts, screws, and bolts. The only difference in a half a million dollar piece of equipment was the name plate. Instead of "Bell & Howell, made in Chicago" it was "Bell & Howell-Rank, made in London." And they were able to freely buy as many as they wanted from London, prohibiting us from selling it from Chicago. We got a royalty; the United States got a royalty—instead of the direct labor, the absorption.

So when I went on the Banking Committee we worked very hard to have a more sensible policy and we decided that if the same technology was available from someone else that the American company should not be prohibited from selling. That was depriving us of business and that was one of the things that was causing us to lag so far behind other countries in doing business with Eastern Europe.

I happen to think it's a very good thing to demonstrate the competence that we have, whether it's competence to produce agricultural products or not. I think it's a very good thing.

I am concerned when we get so restrictive in our policies as we have been in the past, and I'll be watching very carefully to see

that we aren't—as a former businessman, we're not what I consider stupid in our policy.

That is why I have fought so hard for the right of Caterpillar in Illinois to sell against the Japanese competition pipelayers. They're buying them from the Japanese and I was delighted when the President made a Presidential decision in that case, and I think Commerce did back that decision, didn't they? It was just recently made a few weeks ago.

Commerce did support that decision, isn't that right?

Mr. BRADY. Yes; it did, Mr. Chairman.

Senator PERCY. And you yourself supported it, did you?

Mr. BRADY. I supported the decision, Mr. Chairman.

Senator PERCY. Fine. So I just want to make that general comment and I'll wait for questions, Mr. Chairman, after your questions, but I have had a strong feeling in the past that we have been shortsighted in the way we have approached East-West trade and that there are many benefits that can be gained.

READILY AND COMPETITIVELY AVAILABLE

I know you had nothing to do with those policies as set up then, but I have been a part of moving us toward fewer restrictions. We are not talking about strategic matters or strengthening their military. Rather, we are talking about a product that is readily and competitively available from other places in the world. Yet we were depriving American manufacturers from having access to those markets.

I think it really undercut our economy. It didn't weaken any other economies. The Soviets were able to buy comparable equipment from other countries and it strengthened other economies at our expense.

Mr. BRADY. Mr. Chairman, let me take a couple of seconds to react to your statement.

I would use the word that we were clumsy in structuring our relations with the Soviet Union and perhaps even with the Eastern Europeans. I think we have paid too much attention to things that were not important.

When I talk in my statement about decontrolling the lower end of the technology spectrum, for example, I think it is unlikely that the Soviets are going to buy "Speak and Spell" or the chess game, or the Singer sewing machine to get a microprocessor that is probably worth $2 out of an $80 or $100 piece of equipment.

They can walk into Radio Shack or into any Computerland or into any computer store throughout this country and buy that microprocessor, put it into a diplomatic pouch and send it home. The problem is, however, as you get a problem in the bureaucracy it tends to become very staid and you tend not to want to take the resources and to apply them to the areas that are more important.

I think as we go into the 1980's the high technology, the process know-how, the capability—transferring the capability to the Soviet Union to produce and manufacture a given product rather than the product itself is, by far, more important than the Speak and Spell or the chess game or that kind of enterprise.

So I think we have become more sophisticated in the last couple of years. I think this policy is basically going to be a more sophisticated policy.

There are only two other points that I would make. There is a problem evolving with regard to the Western Europeans, the United States, and Japan vis-a-vis the Soviet Union in terms of the Soviet market as a market and whether there is a dependency created which leads to a vulnerability, and that is a strategic matter in the sense that one's political options are constrained as a result of that kind of a vulnerability. So I think we will be looking at that.

I think the other point we know—and the purpose of my statement today was to give a realistic assessment of where we are and as the basis upon which we build a new policy—I think we now know that the myth about the Soviet Union being a vast market for U.S. goods is simply not true. they don't have hard currency. That's going to be diminishing in the next few years. They're going to try to overcome that with construction of the Siberia to West Europe pipeline.

But at this point in time the Soviet Union is really not a very large market in overall terms. I mean, this is in the relative sense. And, of course, in Eastern Europe there are some countries that have real economic problems. The PRC is something different. The PRC may be a very good market for the United States and, as you know, this administration has already announced its policy with regard to the PRC, which is a substantial liberalization of its export control policy.

So upon that basis I think we have made the fundamental reassessment, and I think some of the comments you make are very, very well to the point, Senator.

Senator PERCY. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Brady, let's pursue that line of thinking just a little further.

AREAS NOT RELATIVE TO MILITARY STRENGTH

In your statement you say that the purpose of the administration is not to stop trade with the Soviet Union but rather to manage the flow of trade. In a little more specifics than you outlined, what do you think are the areas that are not relative to the military strength of the Soviet Union in which it would be proper to trade? Would you give us a few examples?

Mr. BRADY. That are not relative to the military strength?

The CHAIRMAN. Let me lead you on a little.

The Soviet Union this year probably will have a bad harvest.

Mr. BRADY. That's right.

The CHAIRMAN. It's the third bad harvest in recent years. A bushel of wheat is not a very militaristic item, but a number of bushels of wheat makes a significant difference in the overall capacity of the Soviet Union to do any one of a number of things.

Now exactly where is your thinking along this line?

Mr. BRADY. Senator, the President has said a number of times that he does not anticipate another embargo on wheat. It is our view——

The CHAIRMAN. President Carter said that too. [Laughter.]

Mr. BRADY. That raises a question that I think we should get to. It is my very strong view that grain is not a strategic commodity in the sense that perhaps it would become—perhaps—if the grain were directly feeding troops that were engaged in a military effort somewhere. There is always that possibility, of course. I think we have to take a look at the technology spectrum.

The CHAIRMAN. Let me interrupt you at that point. What is the difference between the grain that feeds an army or the grain that feeds the civilian population so that the army can use their domestic harvest?

Mr. BRADY. Mr. Chairman, I think when I said to Senator Percy that the export control approach that we hope to develop is a more sophisticated approach, I think we have to make some of those judgmental decisions and we have to draw those lines.

On the one hand, grain is not strategic as, for instance, the know-how necessary to build a plant to produce machine tools, numerically controlled machine tools, for instance. There is a vast difference and we have to make that difference.

With regard to controls of agricultural commodities, I think it is important to recognize that in certain contingencies yes, we might have embargoes, total embargoes, vis-a-vis the Soviet Union as we had with regard to the invasion of Afghanistan.

But there would be a contingency kind of situation where we would develop with our allies a general plan by which we would all apply the same kind of controls so that in fact our unilateral controls would not be undermined as they were with regard to the grain embargo by other countries filling in the void.

The CHAIRMAN. Well, we have had a flap over butter. Where would you put butter in this spectrum?

Mr. BRADY. Senator, I tend to put butter with grain.

The CHAIRMAN. One of the hottest items for sale in the Soviet Union is blue jeans. Where would you put blue jeans?

Mr. BRADY. Blue jeans are not a high technology commodity. As I understand it we have transferred the technology to manufacture blue jeans to the Soviet Union.

The CHAIRMAN. What about baseball bats? That was a controversial item at one time because if the Soviet Union, if the Red Army learned to play baseball and we shipped them baseball bats that would improve their troop morale. [Laughter.]

I think you said at one point that we were "clumsy." Would you think that was in the clumsy area?

Mr. BRADY. I would say that it is in the clumsy area. However, I must point out that that problem is not entirely facetious.

The CHAIRMAN. It certainly was not facetious to the people who made it.

Mr. BRADY. Well, a couple of years ago, when we had some very strong concern in the Congress over crime control equipment, there is not much difference between a night stick and a baseball bat other than size. We did get involved in a bit of a situation, as you know. Obviously baseball bats are not strategic.

I think, Mr. Chairman, that what we aim to accomplish, our objective, is to preclude the development of the military-industrial complex of the Soviet Union with Western help. We have substantial and exceedingly strong information that we have helped them,

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again, to a substantial extent in the 1970's. It is that which we must preclude in the 1980's.

The CHAIRMAN. Senator Percy mentioned the fact that we pay a certain penalty ourselves for being too restrictive in this area. You tend to minimize the cost to the United States because you think the possibilities of Soviet trade are limited, but what about forgoing profits, forgoing jobs, forgoing the advantages of some foreign exchange at a time when we badly need all of those things?

Mr. BRADY. Senator, I am not suggesting that we do that. What I am suggesting is that we implement a control system on a selective basis.

I would point out, Mr. Chairman, that there also are other costs that we have not talked about. These are the defense costs which we are now going to have to pay in substantial amounts to upgrade our military to the military level of the Soviet Union. To a certain extent the intelligence information is fairly clear, that Western help has very definitely aided the Soviets in upgrading their military establishment.

I confirmed the paragraph in my statement yesterday with a number of sources throughout this Government. I did not make that statement lightly. I think we have to pay attention to the defense costs also associated with the trade in high technology products. So it really is a balancing act.

It is a difficult one because the economic argument to which you referred are very, very strong and they should be strong. I think to the extent that we are successful it will be when we can balance those interests properly.

WESTERN TRADE

The CHAIRMAN. Now you said Western, I repeat, Western trade had strengthened the Soviet Union.

Mr. BRADY. Yes, sir.

The CHAIRMAN. I think that is an important concept. It is not just the United States.

Mr. BRADY. Absolutely.

The CHAIRMAN. In your statement you emphasized the importance of securing the cooperation of allies in carrying out an effective policy. This is a very significant point. I was at the NATO assembly in May during which this question came up.

What can the administration do to secure some greater cooperation? Take the Fiat plant in the Soviet Union, which presumably has advanced their knowledge of assembly line automobile production. How are we going to meet the concerns of the Italians who need to trade, the concerns of the West Germans who depend to a much greater degree than we do on trade as a means of livelihood?

What carrot does the administration propose to offer to other countries to gain their cooperation and their coordination?

Mr. BRADY. Mr. Chairman, there are limits to which one can go in a public session regarding negotiating tactics.

The CHAIRMAN. With the chairman of the full committee here I think I can offer you a private executive session if you want to discuss that at greater length.

Mr. BRADY. I think the State Department would get a little concerned if I also started discussing their negotiating tactics.

Let me point out that there is a very strong feeling in Western Europe and Japan that the United States in the 1970's did not really care significantly about export controls. To a certain extent we were at the head of the line in seeking exceptions to the embargo list of commodities and they followed us in that respect. So there is a question of leadership. I believe the President already has expressed himself to the allies very strongly on this issue at Ottawa.

I think there is the other question too, which is to the extent that trade in high technology—and again I want to be selective—trade in high technology items in the 1970's has helped the military establishment in the Soviet Union. Our Western European allies and Japan understand this. Our NATO allies understand this. They understand that we now will be spending billions more for defense. I think they will understand that we cannot undermine those expenditures by allowing sophisticated technology and process know-how to be exported to the Soviets, which in turn would require us to put our further expenditures for our military.

CARROTS AND STICKS

So you have asked what are the carrots and sticks. I think when we get down to the negotiating table, and we are putting together our position now, we will be able to convey the seriousness with which we view the issue and the fact that we are not out to stop trade. That is not our objective.

Our objective is to caution so that, one, there certainly is no more dependence leading to conceivable vulnerabilities on the part of our West European partners or even on the part of the United States; and two, so that trade in the high technology items which can be translated to the defense priority industries of the Soviet Union is not permitted.

The CHAIRMAN. Well, of course, there is a provision in the NATO treaty for dealing with problems of this sort, economic problems. It has not been much utilized in the quarter century of NATO's existence, but I think it is an appropriate area.

But once you open that up, you have to face the fact that you are going to be met with demands by our European allies for greater receptivity to their problems, the kind of difficulties that they are being confronted with as a result of a stronger dollar, the kind of difficulties they are being confronted with because of lack of apparent motion in the area of arms control.

And unless you are prepared to move in these areas, it is going to be very difficult to get much cooperation from them.

Senator PERCY. Mr. Brady, first let me say that I am sorry I have not been able to read all of your testimony yet and that I have not been here for all of the questioning. If I duplicate anything, please let me know.

EAST-WEST TRADE POLICY

I do want to get some feeling as to how you personally assign priorities in the various competing considerations in developing U.S. East-West economic policies. How do you weigh out and balance all the export of American products a highly desirable thing

to strengthen our balance of payments and to strengthen our economy, with technology loss, with trade dependence, with modifying Soviet behavior and so forth, taking into account that the spokesman for American business is the Commerce Department?

Many times I hear among my business colleagues—and I still retain my membership in the business council—I hear a lot of them say, unlike other countries where companies are a real advocate, for example, for Japanese business, American companies are a hinderance to American business abroad.

Now, here is the one voice and the one advocate for business here, the Commerce Department. You have the National Security Council and everything else that always take other considerations into effect. Their concern is not just American business, their concern is a lot of other things, their own particular fields of business.

I ask you what are your personal priorities now in development of East-West trade policy?

Mr. BRADY. Mr. Chairman, I should point out that the Export Administration Act is very clear in granting the Department of Commerce the authority to restrict the exports of goods and technology which will make a significant contribution to the military potential of any country that would prove detrimental to the national security of the United States.

So we are charged, and my job specifically as a line officer as the Assistant Secretary in charge of the trade administration area in the Department of Commerce, is to make sure that I implement properly that directive of the Congress.

Now, the act also stipulates that this restrictive policy should be implemented within the overall policy framework of increasing trade from the United States.

So the charge of the Department of Commerce is a dual charge. On the one hand it is generally to promote and then, in a more restrictive area, specifically with regard to Communist countries primarily, to restrict the flow of trade that would have an adverse effect on the national security of the United States.

In my job, I must make sure that I perform that task. It is not my job to lead the trade development effort. That is lodged someplace else in Commerce. It is the Under Secretary's and Secretary's responsibility, basically, to mesh and balance the two.

But we do have the national security responsibility in the Department, and I have the responsibility as head of trade administration to carry it out. So it is not only with the National Security Council, it is not only with the Department of Defense, and it is not only with the Department of State; those agencies are advisory agencies to the Department of Commerce.

Senator PERCY. I would like to explain to you that Senator Mathias will be back to take the Chair again at 13 minutes after, because I have a conference call around the country at a quarter after. Probably I will not be back in the room before our next witness comes before us. But I may have some questions to submit to you for the record. Perhaps you would respond briefly to a few of my questions now.

HOW POLICY DECISIONS ARE MADE

Would you give us some feel as to how policy decisions are made now in the Reagan administration's East-West economic policy issues, to a degree that contentious decisions are worked out amicably, how effective has this proved to be in working through the toughest controversies? You have had a couple of tough ones. Would you just give us a brief picture?

I know the decision on the pipelayer situation was made by the President. Ultimately, that is how it has to be made. How does the process work now, very briefly; then you can amplify your answer for the record if you wish.

Mr. BRADY. Basically, it works through the Cabinet council system, either through the Cabinet Council on Commerce and Trade, of which Secretary Baldrige is the president pro tempore, or through the National Security Council, which functions as a Cabinet council. And they either go up one or the other or sometimes both or sometimes go from the Cabinet Council on Trade to the National Security Council.

There have been a number of senior interagency groups that have reviewed—chaired by the Department of State with collaboration by Commerce and Defense—these East-West trade issues, and the reviews have gone from the Under Secretary level to the National Security Council or to the Cabinet Council on Trade.

Senator PERCY. We have already discussed the order for $40 million to pipelayers, which were internally used and did not involve at all the trans-Siberian natural gas pipeline.

ANALYSIS OF THE TRANS-SIBERIAN PIPELINE

Where does the administration stand on the analysis being made of the trans-Siberian pipeline and what positions are we taking on that? We have discussed it, obviously, with the Federal Republic of Germany.

Do we have a developed administration position on that pipeline? Can you in public say what our attitude is and what the German attitude is? We did have testimony here by Arthur Burns on his nomination, and he expressed his feelings about that. Where do we stand on that pipeline?

Mr. BRADY. Mr. Chairman, the President expressed to the leaders in Ottawa our very strong concern with the pipeline, the dependencies created on Soviet energy as a result, and the further dependencies that might be created on the part of West European producers on the Soviet market.

We are involved in discussions now. We will be holding further discussions as my statement indicates, and presenting alternative supplies, alternative measures to the West Europeans in the near future.

Senator PERCY. I would have to check the record to be certain my memory is correct, but I do believe that Arther Burns took the position that it would be pretty difficult for us to interfere with that decision. It is a sovereign decision of a sovereign country.

I talked to Chancellor Schmidt about it when he was here. He feels quite strongly about it. He said it would constitute, at its maximum, 5 percent of their energy. He said they would not want

to become dependent upon a source of energy that would be vital to them if it could be a hostile source and could be turned off. But I think the decision has to be made by Germany.

Now, let us hypothetically state this: Even if we are concerned about it but do not find alternatives acceptable to Germany, let us hypothetically say they say, "Go ahead." We then immediately are faced with a decision because it will not be a $40 million order for pipelayers but a $200 million order. The same factors are involved as in the last situation. And that situation, an able competitor had exactly the same equipment. That is quite an admission for an American manufacturer to make: that someone else has comparable equipment.

I think Caterpillar sold hundreds of them, but they also bought 150 from Komatsu, and these equipments are interchangeable. There is not any question but that if we say "No" to Caterpillar, the Soviets will buy from Komatsu, and they will get a $200 million order which will strengthen the Japanese economy and will give no technology that I know of to the Soviet Union.

There has not been a single pipelayer ever purchased by the Department of Defense. It is not a defense instrument. It is a field instrument. Two countries now have the technology, so it is not unique.

The Japanese will be ready, willing, able, and anxious to fill that order. They will be very aggressive, and we will have to compete very hard to get that order.

What is the administration's attitude going to be on that if that hypothetical situation comes up? I am not dreaming up something, of course; it is a real, actual case. A license was actually issued by the Carter administration for the same pipelayers when we thought the financing was set. And we thought they were going ahead with it, but they could not arrange financing at that time, apparently. So the companies have the license.

Mr. BRADY. Yes; they have the license. That is correct.

Senator PERCY. I might say I am speaking not only about my own interests but about that of Robert Michel, the minority leader of the House, who has strongly advocated and articulated through the years the case for Caterpillar, that it not be discriminated against and hurt because we have high unemployment and we want to solve that problem in the areas where this equipment is manufactured.

Mr. BRADY. Mr. Chairman, I would make a couple of points. First, you are absolutely correct in saying that the tractors themselves, the pipelayers, are not high-technology equipment. That is right. They are not controlled for strategic reasons in this country; they are controlled for foreign policy reasons. The controls were put on by President Carter in 1978 in reaction to the trial of dissidents in the Soviet Union, that of Shcharansky, in particular. So they are not high technology, I agree.

The question from the national-security standpoint being posed with regard to the pipeline is: Is it in the national security interest of the United States to help the Soviets to develop their oil and gas industry? That question has not been answered. Therefore, your question as to how we would feel specifically with regard to the

pipeline about further exports of Caterpillar tractors, I cannot answer because we do not have an answer on it.

Senator PERCY. Why not? This is not a new issue. It has been debated for months.

Mr. BRADY. Mr. Chairman, it has been debated for months. We have reviewed it, but we do not have a decision yet.

I think there are some premises in your statement, however, to which I would like to react. First, Komatsu is not the only foreign-source supply. There are others who are getting ready to manufacture like or similar and comparable pipelayers.

Second, we tend to make the assumption that Japan will sell regardless of what we do. That is not an assumption to which we always immediately should go, because it is conceivable that that would not happen.

Now, I am not saying that it will or that it will not. All I am saying is there is always a possibility that it would not.

But I agree that that decision is going to be faced. It is going to be faced in the near term. And we are aware of your comment, Mr. Chairman, and of Mr. Michel's also.

Senator PERCY. Congressman Michel and I will be in touch with you. As our other witnesses know and as Secretary Haig knows, we were very gratified at the decision. I think it was a hardheaded decision, in the best interests of the United States of America, the last decision that was made. I think we will have to be just as realistic in this case.

HOW EFFECTIVE IS U.S. LEADERSHIP

You raised a very interesting question: Realistically, how effective is U.S. leadership with our allies and friends, with West Germany, France, and Great Britain, in tightening COCOM controls, other than just the rhetoric of it, when we consider the substantially large proportion of their trade?

And you pointed out there is a small amount that really do with these countries. You look at their figures, it is like saying, "We are going to embargo grain exports to the Soviet Union," and we did at high cost to our farmers, but we tell Argentina—and we never got to first base with them on that one. They boycotted the Olympics, but they kept shipping grain, millions of tons of it, and they signed a new 5-year agreement. They said, "You cannot tell us to do it. It is a very large proportion of our economy."

Well, these other countries are saying the same thing, "We cannot afford to cut back on this East-West trade."

So, how effective will we be? I would agree that if we could work in concert with our allies and they would agree not to ship, then it may be in our national security interest to stop the whole deal. That might be entirely different. But if we will not have one iota of influence in stopping the deal with other countries, they may listen to us and they may delay for a couple of months, but if they intend to go ahead and ship, then we will be at a disadvantage.

We were within 3 days of losing that previous order. Patience had run out all the way around. Finally, a decision was made by the President, and he made the right decision. Well, we may be up against the same thing again. How effective have we been in

persuading our allies not to do business when we think it is in the general national security interest not to?

Mr. BRADY. Mr. Chairman, that question is almost impossible for us to answer, because we are just now beginning those discussions. I am exceedingly critical of the policy of the previous administration, which I think was shooting from the hip. I think it was ad hoc. I do not think our allies, I do not think the business community, and I do not think the Soviets, for that matter, ever knew from day to day precisely where we were going to come out. In large measure, I think that is one of the reasons why the Western Europeans are still waiting to see whether we are really serious about it.

To the extent that we exert leadership and impress upon them the security and strategic considerations of this trade and how important they are, then I think we will meet with some success.

Now, I want again to separate the Caterpillar area, because it is not high-technology equipment. It only becomes that kind of equipment in the context of the oil and gas issue as a separate issue. I appreciate your comments, Mr. Chairman.

There is only one point I would make, which you both have made, about losing the market to Western Europe. I would point out that most of the exports to the Soviet Union and Eastern Europe are based on credits. There are those who are saying that rather than to use those credits for a potential adversary and a strong adversary, perhaps we should look to the Third World and use the available credits we have in a very constrained situation internationally to help the LDC's [less developed countries] rather than to help the Soviet Union.

Of course, that depends on the market being available, the need, and so forth. And I recognize that.

Senator PERCY. I thank you very much, Mr. Brady. On your point that this is a new administration, I would like to commend the administration on the way it went about a potential hypothetical situation: if the Soviet Union moved into Poland by force.

I tried to articulate in Moscow in November, just after the election, what I thought would happen, that I thought our allies would stick with us, that there would be embargoes across the board that would be really effective, because Poland hits at the heart of Europe.

After all, it was Chancellor Schmidt who said it would change the face of the globe if they moved into Poland. I think we would have a working relationship there with everyone, and they would be isolated in trade like they have never been isolated before. But, you know, every situation is not Poland; they are not quite as clear cut as that.

But I think this administration, when it makes its mind up to do something, our allies are going to give us the benefit of the doubt many times. But we have to have a compelling case for it.

My point is let us keep the cases strong and fight our battles in trade on the ones where we absolutely are able to convince our allies to stand with us and do not weaken ourselves by going into too many peripheral ones that may not have that essential characteristic to them.

I am not classifying the pipeline as such. I have not made a determination on a national security basis yet. But I am questioning, having talked to German nationals, whether we are really going to influence in the end that final decision if there are no acceptable alternatives available.

Thank you very much.

Mr. BRADY. Thank you, Mr. Chairman.

Senator PERCY. Thank you, Senator.

NATIONAL SECURITY PROVISIONS/FOREIGN POLICY PROVISIONS

The CHAIRMAN. Mr. Brady, just one final word on that subject. There has been some speculation in the press that the Pentagon would like to have oil and gas equipment controlled under the national security provisions rather than under the foreign policy provisions of the Export Administration Act.

How do you come down personally on that issue?

Mr. BRADY. Mr. Chairman, I would prefer not to answer that question. That is a matter in the decisionmaking stage at the moment, and we expect a decision in the near future. I would really ask you to defer my answer to that, because it begins to reveal the agency positions within this Government.

The CHAIRMAN. I think we could certainly ask you to keep us advised as this process of decisionmaking unfolds.

Mr. BRADY. Mr. Chairman, let me make a point in reacting to what Senator Percy said. I think to the extent when we negotiate with our allies, that we have a pretty good idea of what is achievable and our sense of priorities then will have a better chance of success.

The CHAIRMAN. In this process—and I think it is important for us to understand this together—in this process, will you be guided by the statutory basis that you quoted here today, dealing with exports of goods or technology which make a significant contribution to the military potential of likely adversaries? Are you going to go down the list—automobile plants, automotive equipment, chemical plants, computers as well as gas and oil equipment? Would that be your process?

Mr. BRADY. Mr. Chairman, we very definitely would be guided by the statutory directives of the act. We have embarked, with the Department of Defense—and as a matter of fact, are staffing up and getting ready in the interagency system to come to grips with the objectives that we would like to achieve in terms of redefining the list of embargoed commodities.

The CHAIRMAN. You made a rather sweeping charge in your statement that the failure adequately to regulate trade has led to greater costs. Can you cite us any examples?

Mr. BRADY. Mr. Chairman, I would urge you very strongly to get some confidential or higher briefings from some of the intelligence agencies in this Government, because that is the statement to which I referred. It had been cleared with a number of agencies around town yesterday. It is intended to say precisely what it says.

Yes; there are many instances when that has occurred. There are some occurring today.

The CHAIRMAN. Would you care to put a dollar figure on that?

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Mr. BRADY. No: I would not, Mr. Chairman, because I think it would tend to be a very subjective dollar figure.

Senator PERCY. Did you say it was a very subjective figure?

Mr. BRADY. Yes; it would be a very subjective guesstimate, which I do not think would be really reliable.

EXPORT CONTROL POLICY

The CHAIRMAN. A couple of years ago you made a statement which received a good deal of public notice, to the effect that export control policy was in a shambles. Did you make such a statement?

Mr. BRADY. I absolutely did.

The CHAIRMAN. Would you make that statement today?

Mr. BRADY. Is our export control policy today in a shambles? Absolutely not, because that is what we spent 4 months trying to redo.

The CHAIRMAN. What have you done differently?

Mr. BRADY. I think, Senator, what I have outlined this morning in terms of the Reagan administration policy will rectify the deficiencies which I characterized in 1979 as a "shambles."

There are two problems with the export control system. One is the procedures. The procedures had not worked, including the clearance procedures. There were backlogs. The business community of the United States behind the scenes upheld me in my statement that it was a shambles. They knew it and I knew it. It was not functioning properly. We were not reviewing cases promptly. There is a question as to whether we were looking at the right things from a substantive standpoint.

What we have done in the 8 or 9 months that we have been in office is to take the administrative procedures, the interagency system, and make it work. It is working again. The substructure, the Advisory Committee on Export Policy, which is the interagency mechanism, is working and is vibrant. We are reducing the backlog. We had close to 2,000 delayed cases 4 or 5 months ago. We are now down to 783. So the procedure is being employed. I believe we are going to get the business community some prompt decisions.

The question of substance is something else. That is what we are addressing in the interagency reviews, and that is what we are getting Presidential decisions on.

The CHAIRMAN. What effect would a major expansion of export controls have on the number of applications?

Mr. BRADY. Mr. Chairman, I want to stress again that my comments today do not necessarily imply an expansion of export controls. I think for the first time in many years what we want to do is to change the direction of those controls.

The CHAIRMAN. That is what I have heard you say: not necessarily an expansion, but you might have a different thrust.

Mr. BRADY. That is right.

The CHAIRMAN. Then I assume that your answer is you would not expect any substantial increase in the number of applications?

Mr. BRADY. There are two parts to the answer, I think. To the extent that we are able, as a result of our review, to bring more clarity and predictability to the export control system, to the extent that we are able to loosen up some controls, to eliminate

from control some of the lower end of the technology spectrum, then we could reduce the actual case situation.

I would point out that as we move into the higher technology area, however, the complexity of those cases increases, so it makes the assessment of those license applications more difficult and more time consuming.

The CHAIRMAN. Mr. Brady, this has been a very interesting discussion for us. The committee is vitally interested in this subject. There can be very few subjects more important both from an economic as well as a security viewpoint.

We live in an increasingly interdependent world, a world of very rapid change. And so I think it is appropriate that we have subjects as vital as this under constant control. I am glad you are making the kind of sweeping review you are making. We will await with interest the result of your deliberations.

Mr. BRADY. Thank you, Mr. Chairman. And thank you for the opportunity to testify.

The CHAIRMAN. Our next witness is the Hon. Myer Rashish, Under Secretary of State for Economic Affairs.

We are glad once again to see you at the table, Mr. Rashish, but I do not know if you are glad once again to be there.

Mr. RASHISH. The last time I was here, if my recollection is correct, we talked about this same subject.

The CHAIRMAN. Please continue.

STATEMENT OF HON. MYER RASHISH, UNDER SECRETARY OF STATE FOR ECONOMIC AFFAIRS, ACCOMPANIED BY HARRY KOPP, DEPUTY ASSISTANT SECRETARY FOR TRADE AND COMMERCIAL AFFAIRS, DEPARTMENT OF STATE

Mr. RASHISH. Mr. Chairman, let me introduce my colleague sitting here at the table. He is Harry Kopp, Deputy Assistant Secretary for Economic Commercial Affairs in the State Department. He has special responsibility in the area of trade policy, including East-West trade polic·

The CHAIRMAN. We are glad to welcome him to this committee.

Mr. KOPP. I am glad to be here, sir.

Mr. RASHISH. Mr. Chairman, I will proceed with my statement.

The administration's trade policy toward the Eastern bloc—indeed our overall economic relationship with the East—cannot be divorced from our broad political-security objectives vis-a-vis these countries. As a result, our trade policy contains some basic and significant characteristics which distinguish these trade policies—that is to say, the East-West—from our trade policies toward other countries.

Those differences are due to the political-military situation in which we find ourselves today. In the first instance, and most importantly, the Soviet Union and its Warsaw Pact allies remain the principal threat to Western security. This prevents us from being able to deal with the Soviet Union and Eastern Europe as we can deal with most other countries in the world.

Our economic policies must therefore support our key objectives of deterring Soviet adventurism, redressing the military balance between the West and the Warsaw Pact, and strengthening the Western alliance. Economic relations must reflect and reinforce

our political goals of influencing the behavior of Communist governments in ways which serve the vital interests of the United States and its allies.

In formulating our economic policies, we must also keep in mind that trade may enhance Soviet military capabilities directly and can result in the transfer of technology not otherwise available which may make a significant contribution to the military.

East-West trade also contributes more broadly to Soviet ability to support military programs at levels that Western countries find increasingly difficult to match.

Furthermore, certain economic relations with the East may led to levels of dependence which increase Western vulnerability to political influence and coercion by the Soviet Union.

On the other hand, our trade offers certain opportunities. There are, of course, the obvious benefits to our economy from increased exports. In addition, we must always keep in mind that our economic relations may offer an opportunity to influence future Soviet and Eastern European economic and political behavior. Keeping these considerations in mind, it is very important that the United States systematically review our policies regarding economic relations with the Soviet Union and Eastern Europe.

We will work closely with our allies to insure, in the words of the Ottawa summit declaration, that, "In the field of East-West relations our economic policies continue to be compatible with our political and security objectives."

It is extremely difficult to carry out an effective East-West trade policy unilaterally. We should not allow East-West trade to become a source of dissension and division in the alliance.

In undertaking our review, we are seeking to develop a prudent and careful approach which would at the same time improve our ability to deny the Soviet Union equipment and technology to further its military objectives while allowing us to broaden certain economic ties that will permit us to exercise greater leverage and influence on Soviet behavior.

Mr. Chairman, after this introduction, I would now like to use the body of my testimony to answer the questions which you appended in your letter of invitation and asked that I address in my statement.

With respect to the U.S.S.R., in reviewing East-West trade policy, the administration has given priority attention to our relations with the Soviet Union. One of our major goals has been to eliminate the transfer of Western equipment and technology which contributes significantly to Soviet military capabilities. There is a need to strengthen multilateral controls on the transfer of technology.

At the July Ottawa summit we agreed to hold a special high-level meeting of COCOM to discuss how to improve the effectiveness of controls on trade with the East. We are now in the process of developing our position for this important meeting.

An additional area of concern has been the increasing importance of Soviet raw materials, particularly energy, for the economies of many allied countries. We continue to have serious reservations about the West Siberian pipeline project, which, if completed, would substantially increase the share of Soviet gas as a proportion

of Western Europe's gas consumption, and which has the potential for significantly increased Soviet political leverage as a result.

We plan to meet with European leaders in the coming months to discuss alternatives and ways to reduce vulnerability to possible Soviet pressure.

If the Soviets act responsibly and with restraint in the international arena, we are prepared to continue and expand our trade in nonstrategic areas on the basis of mutual advantage. The removal of the partial grains embargo and the 1-year extension of the United States-Soviet grains agreement is a clear indication of our readiness in this respect.

However, even in the area of nonstrategic trade, we cannot divorce our policies from overall Soviet behavior. While it is the Reagan administration's goal to reduce foreign policy trade controls, we are not prepared to forswear the use of these controls as part of an overall response to future Soviet aggressive action.

With regard to Eastern Europe, in developing U.S. policy toward the countries of Eastern Europe, we must take into account the distinctive character of each country in the area and the fact that each of these nations has its own internal dynamic. Our goal is to encourage evolutionary change, increased assertion of national self-interest, and greater respect for the rights of individual citizens by East European governments.

Throughout Eastern Europe our economic and trade ties constitute a key component of our bilateral relationship. However, we must continue to deny equipment and technology that would contribute significantly to the Warsaw Pact's warmaking capabilities or could otherwise be diverted to the Soviet military.

The state of our bilateral relations with these countries varies from country to country. Yugoslavia, Poland, Romania, and Hungary receive nondiscriminatory or most-favored-nation [MFN] treatment with respect to tariffs and are eligible for government-supported credits from the Export-Import Bank and the Commodity Credit Corporation.

This summer the administration renewed bilateral trade agreements with Hungary and Romania and proposed to the Congress that the most-favored-nation treatment for these countries be extended for one additional year in accordance with the provisions of section 402 of the Trade Act of 1974.

Parenthetically, no such extensions are required in the case of Poland and Yugoslavia, to which MFN treatment had been extended before the enactment of the 1974 act.

In each instance, the granting of MFN has been an important stimulus to an improved bilateral relationship. In the case of Poland, Yugoslavia, and Romania, our relationship has grown to the point that our bilateral trade exceeds $1 billion per year and the exchange of Presidential visits have become a frequent phenomenon.

We have consulted particularly closely with Poland during its current economic difficulties and have granted debt relief and emergency credits for the purchase of agricultural commodities.

While Czechoslovakia, Bulgaria, and the German Democratic Republic do not receive MFN treatment and are not eligible for U.S. Government-supported credits, our trade relations with each of

these countries have continued to expand in recent years. They are becoming more important markets for U.S. exports and particularly for agricultural commodities.

We are currently involved in intensive negotiations with Czechoslovakia to settle outstanding claims of American citizens against that country. We have been encouraged by the constructive attitude which the Czechs have shown in these negotiations and are hopeful that a final agreement can be reached in the near future.

As to China, the 1979 trade agreement with the People's Republic of China, extension of MFN, and the granting of Government-supported credits have helped to fuel an expansion of our economic relations which has made China our most important trading partner among the centrally planned economy countries. Our total trade with China reached $4.8 billion in 1980. U.S. exports to China were $3.7 billion, or approximately half the total of all U.S. exports to all Communist countries.

We have a strategic interest in a secure, stable, and friendly China which is able to resist Soviet pressures. To advance this interest, we have eased—but not eliminated—restrictions on the sale of advanced equipment and high technology to China. Nevertheless, we will continue to operate on a case-by-case basis, taking into account our security interests.

We will also consult with Congress and will seek appropriate congressional action to end economic discrimination against China no longer consistent with our relationship.

In this connection, we are considering recommending amendments to the Foreign Assistance Act of 1961, the Agricultural Trade and Development Act—that is, the Public Law 480—and the Trade Agreements Extension Act, which prohibits imports of certain categories of furs from China.

We have also proposed to the Chinese the establishment of a new joint commission on commerce and trade.

Now, other countries of the Communist world: Very tight controls remain on trade with Cuba, Vietnam, North Korea, and Kampuchea. Export licenses for these countries are issued only in exceptional circumstances, and particularly when humanitarian concerns are at issue. We will be reviewing these controls in the near future as part of the general review of all foreign policy trade controls.

Given Cuba's increasingly adventuristic military activities in support of Soviet expansionism, Vietnam's continued military occupation of Kampuchea, and the extreme North Korean truculence, any liberalization of these controls is very unlikely.

I have previously noted the important noneconomic benefits which accrue to us as a result of our trade relations with many Communist countries.

However, we must not lose sight of the fact that the principal returns on our East-West trade relations are those which accrue to the U.S. economy. Our exports to the centrally planned economies, exclusive of Yugoslavia, total $7.6 billion in 1980, or roughly 3.4 percent of total exports.

But for the American farmer, this trade was especially significant. Agricultural sales were $5 billion, or 14.4 percent of our total agricultural exports. The $5 billion surplus we enjoyed in our trade

with the Communist world last year made a significant contribution toward improving the overall U.S. balance of payments. Exports to the centrally planned economies generated approximately 300,000 American jobs.

Most of the U.S. restrictions on trade with the Communist world are imposed for reasons of national security. It is not necessary to elaborate on the need to have national security controls on trade with these countries.

Foreign policy controls imposed in the East-West trade area are relatively few. The most important of these are the controls pertaining to the sale of oil and gas exploration and production technology and equipment to the U.S.S.R.

Other foreign policy controls include restrictions on the sale of crime control equipment, and our very tight controls on trade with Cuba, Vietnam, North Korea, and Kampuchea. If all these controls were to be suddenly eliminated, the effect on U.S. exporters and our economy would be modest.

We maintain foreign policy controls to make clear to Communist governments that we will not completely insulate our economic relations from their behavior in other areas. When Communist governments take actions that are particularly repugnant to us, it is important that we react, preferably with the cooperation of our allies, in an area which will hurt them.

While economic actions of this sort will invariably have costs to us as well as to them, failure to take action when provoked may have a far higher price tag in the long run. Our readiness to take strong retaliatory action, including measures in the economic sphere, has helped to discourage inclination to try to resolve the current situation in Poland by the use of outside military intervention.

It is critical that our export control policies be consistent and predictable. We are very much aware of how important these factors are for our exporters and for foreign customers for U.S. products. There have been difficulties in this regard in the past which this administration will try very hard to remedy.

Our objectives are to make export controls less burdensome to the businessmen by speeding up the processing of export license applications and loosening controls of equipment not critical to defense-related industries.

Turning now to the attitudes of our major allies. Our NATO allies and Japan share our general political objectives in dealing with the Soviet Union, the other Warsaw Pact countries in Eastern Europe and China.

However, we do not always see eye to eye with our allies on the use of restrictive trade policies to promote these political objectives. There are several reasons for these differences: Geographic proximity, the need for raw materials, and marketing possibilities have turned Western Europe and Japan naturally toward trading with the COCOM countries and China.

Many of our NATO allies have more extensive commercial links with the Soviet Union and Eastern Europe than does the United States, partly because of the belief that strong economic ties can moderate political attitudes and behavior among the Communist States. Unfortunately, in the case of the U.S.S.R., such moderation

has not occurred, and the era of détente has been a period of unprecedented growth of the Soviet military coupled with increased adventurism worldwide.

The Japanese and the Western Europeans provide extensive government-supported export credits and/or insurance to promote their exports worldwide, including to Communist countries. As you know, the Federal Republic of Germany has a special trading relationship with the German Democratic Republic. Our allies, in general, extend MFN treatment to exports to Communist countries. For purely commercial reasons, the European community maintains quantitative restrictions against a fairly narrow range of Communist country exports.

Our NATO allies have cooperated with the United States to control the export of strategic equipment and technologies to the Communist countries in Europe and Asia for over 30 years. Agreed controls are negotiated in the informal multilateral organization, the Coordinating Committee [COCOM]. The COCOM embargo does not extend to oil and gas equipment and associated technology for the U.S.S.R., except to the extent that items embargoed for other reasons might also have oil and gas applications; for example, computers to process seismic data.

Our experience has demonstrated that export controls are more effective if supported by collective action. This was clearly illustrated by the U.S. economic sanctions imposed on the Soviet Union following that country's invasion of Afghanistan. Our major allies supported some, but by no means all, of these measures. It seems clear that those actions would have been more effective had the support for the U.S. efforts been greater.

Because of that experience, the United States, as well as the allies, are convinced of the need for contingency planning for future Soviet aggression. We have already worked with our allies on contingency planning in NATO and bilaterally. The Ottawa summit deliberations underscored the determination to continue such consultations.

There are, in fact, relatively few areas where unilateral action by the United States without similar actions by other important suppliers can seriously limit the Communist countries' access to major products and technologies. This is true even with regard to many advanced products and technologies where U.S. monopoly or supremacy has diminished over the years.

For this reason we will continue in our efforts to coordinate our own export controls with those of our major allies in COCOM and in other fora.

I have stressed the need to consult with our allies on coordination of export controls. I should add, however, that this administration is prepared, if necessary, to consider unilateral controls either to protect our national security or to further overriding national objectives. I do not believe that either the Congress or the American public would want us to adopt any other policy.

Let me just say a few remarks about the problems caused by the application of U.S. export control regulations and law outside the United States. Our export control regulations apply not only to direct export from the United States but also to reexports from third countries of U.S.-origin items, to exports of the products of

U.S.-origin technologies, and exports of non-U.S.-origin items by U.S. subsidiaries.

But it is important that we approach the extraterritorial application of U.S. export control regulations to the foreign jurisdictions with considerable caution. Many of our closest allies have shown that they are very sensitive to our attempts to apply U.S. laws to conduct or persons within their territories, although in many instances they do, in fact, cooperate with us. For example, the British alert their firms to the possible need for U.S. reexport licenses to certain types of embargoed equipment.

Overzealous efforts on our part to apply our regulations abroad, forcing a showdown over conflicting interpretations of international law and sovereign rights, could end this kind of cooperation. It would certainly cause friction in our bilateral relations, with detrimental effects on the operation of U.S. firms overseas.

Mr. Chairman, we appreciate the opportunity that you have given me and my colleagues from the executive branch to appear before you and to discuss this very important and evolving issue of East-West economic and trade policy.

There is no question that our economic policies are and will remain an important factor in our relationships with the Communist governments. Where trade is pursued on the basis of mutual advantage, with appropriate national security precautions, it can bring important benefits to our domestic economy as well as serve our overall foreign policy goals.

We must not forget that the effectiveness of our East-West economic policies will be greatly enhanced by close consultation and cooperation with our allies. The development of mutually compatible policies will be one of our major goals as we proceed in the months ahead.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Secretary.

Senator Percy had to leave the meeting, but he left two questions which he asked me to pose to you. Let me do that at the outset before I get to questions of my own.

PRIORITIES IN DEVELOPING U.S. EAST-WEST ECONOMIC POLICY

First, the Chairman asks: "How do you personally assign priorities among the various competing considerations in developing U.S. East-West economic policy?"

I think by that he means questions such as the export of American products and technology loss, trade dependence, modification of Soviet behavior. Where do you place your priorities?

Mr. RASHISH. I would find it very difficult, as I think my statement implied, to assign priorities in an inexorable and irreversible order; it seems to me that devising a policy toward relations with the Communist countries involves a rather complicated tradeoff of goals and objectives: The need to be effective; to have support of allies; to be able to approach and apply a common policy.

We have a multiplicity of objectives. I personally would put the need to secure controls in order to contain the capacity of the Soviet Union, in particular, to make war rather high on the list. In fact, I should think that if I were obligated to pick one priority, I would pick that one. The business of East-West trade policy is

principally to serve our larger security and foreign policy objectives, and that is to contain Soviet warmaking and expansionist capacity.

We have other objectives, though. We wish to have a strong allied position, an agreed approach, so that we may deal with contingencies that may arise that can only be dealt with jointly, as in the case of Afghanistan and as I have mentioned the possibilities with respect to Poland, so that we can deal with those contingencies in an effective manner.

We want to pursue a policy that seems to me reduces the vulnerability of not just dependence, but dependence that carries with it the threat of vulnerability that can be exploited by the Soviet Union to achieve certain political objectives that it has.

We would like to pursue a policy under which the market economies could progressively change the dynamic in the Eastern European countries so that they come more and more into the market system and the disciplines of the market system.

And thoughout all of this, we do not want willy-nilly to suppress normal trade. We think that it brings certain values, that it does in fact increase our ability to deal with the Soviet Union and others.

So we have a multiplicity of objectives, and a lot of the debates that you hear echoes of, if not direct reports, from the executive branch reflect the tradeoffs between these various objectives and the attempt to devise a policy that has coherence and balance.

EAST-WEST ECONOMIC POLICY DECISIONS

The CHAIRMAN. Your very interesting answer to Senator Percy's first question leads in a very natural way to his second question. I do not know whether he anticipated what you were going to say. But he says: "From your perspective, how are East-West economic policy decisions made in this administration? Who is in charge?"

Mr. RASHISH. Well, the President is in charge, and the President looks to advice from the various agencies that are involved. And there are mechanisms through which that advice is rendered, and even at the end, differences of views are recorded and options presented to the President.

We have a set of Cabinet councils which deal with these issues, the Cabinet Council on Trade and Commerce, the Cabinet Council on Economic Affairs, the NSC itself, the Trade Policy Committee, and the Cabinet sitting as Cabinet. So that is the process of getting the best possible views and information from the departments and agencies, from the system, so that decisions by the President can be made; that process, I think, works very well.

It also, of course, as you know, results in the surfacing of differences between departments and agencies.

The CHAIRMAN. Senator Percy further asks: "How effective do you feel this process has proved to be in working through the toughest and most contentious of the decisions?"

Mr. RASHISH. Those seem to be the only decisions that I hear about.

The CHAIRMAN. You came in on one.

Mr. RASHISH. That is right. And I suspect those are the decisions that tend to go to the President, the really tough ones. I think it has worked. I think, without going into details, the President has

already addressed and decided a number of major issues in this field. There are others pending.

I came in at the end of Larry Brady's testimony, and I think he mentioned the issue of policy, details of policy, if you like, with respect to export oil and gas production and development equipment and technology as an issue which is presently pending for decision, and which has been reviewed by all the agencies and discussed in interagency forums but on which the decision is not yet rendered.

So it is an ongoing process. External events, changing realities in the world situation, will influence decisions, in any case. But is it our hope that we can have a set of principles, clearly defined policies, that will give consistency and coherence to how we behave in this area.

Mr. CHAIRMAN. Now, just a couple of questions of my own.

In closing your statement, you said that our economic policies are and will likely remain an important factor in our relationship with Communist governments. And I do not think anybody could dispute that.

ABILITY OF AN ADVERSARY TO MAKE WAR

I am wondering at what level we should make the decisions that we have been discussing. Clearly, the statute looks to affecting the ability of a possible adversary to make war, his ability to make war. In our thinking, should we go beyond the quesiton of the ability of an adversary to make war and also consider his incentive to make war?

Let me give you an example of what that might be, out of a pending issue. And that is the question that we discussed with Mr. Brady at some length, the question of oil and gas equipment.

You very well could say that we ought to try to discourage energy production in the Soviet Union to the extent that we could by denying the Soviets sales of equipment, that we ought to slow down their energy development because that, in general, will slow down their whole economy, including their capacity to further develop a defense industry, and that by so doing we may gain 5 years, 10 years, 20 years, who knows, but we would gain some time.

The other side of that argument might be, if you believe the CIA, that the Soviet Union will be an oil-deficit nation sometime in this decade. When they become an oil deficit nation, the Soviets presumably will become anxious to seek energy from outside sources. And this will have a more or less disruptive effect on world energy markets. If they come in as orderly bidders in the auctionplace, at least it will drive up the price and there is no guarantee that they will come in as orderly bidders. They may come in as disorderly bidders.

So is it then more to the interest of the Western world to promote energy production in the Soviet Union? Is that level of consideration debated?

Mr. RASHISH. It certainly is. It is a perfect example of the complexity of the considerations that enter into a judgment that we have to make.

If the Soviet Union is likely on current production to be an oil-deficit country before the end of the decade, if in fact the Soviet

Union has substantial reserves, perhaps as yet undiscovered, undeveloped reserves of oil and gas, the Soviet Union is faced with a decision as to how to allocate its resources.

Clearly, the extraordinary commitment of resources and the best resources in the Soviet Union—human and physical—to production of military goods and military technology has meant that other sectors of the economy have been starved for resources.

Theirs is not a strong economy. If the Soviet Union were obliged to divert resources to the development of indigenous energy, it would be similarly obliged to reduce its emphasis and the commitment of resources to the production of military hardware and military technology.

It seems to me that on this basis it would be desirable for the Soviet Union to have to carry the burden of the cost of its own military economic policy. Whether in fact, denied access to oil the Soviet Union would then become an aggressive actor in the Persian Gulf and be the noncivilized bidder on the auction market, this is something about which there are differences of view.

I do not myself feel that I know enough about Soviet intentions and psychology to make a judgment. At least to my mind, that is a rather open question. But I think what is relevant—of course, that, too, is relevant—but to my mind, what has a kind of precedence in terms of relevance is that the Soviet Union has to face up to the implications of its own economic and security policies. And it has to face up to the cost of diverting resources from the military sector to other sectors that may have priority for it in terms of maintaining its own viability as an economy.

The CHAIRMAN. So that this really compounds the area of consideration that you have to keep in mind as you make your decisions.

Mr. RASHISH. I am just one of the actors in the process of making decisions.

The CHAIRMAN. I use the "you" collegially.

Mr. RASHISH. Collegially. That is absolutely true. And we do have in fact a collegial process in the U.S. Government with State, Commerce, Defense, Treasury, the other agencies, the NSC staff, and others.

"LIGHTSWITCH DIPLOMACY"

The CHAIRMAN. You have referred to the fact that one of the purposes of trade controls is the execution of foreign policy. In some cases, our mutual friend, George Schultze, has called this a "lightswitch diplomacy," that you just flick it on and off. I would assume that you would hope that we could avoid "lightswitch diplomacy," the application of broad controls, embargoes, would be limited to situations of the gravest nature.

Mr. RASHISH. We cannot control the occasions on when we may have to turn the lights on or off, as the case may be, because as you say, response to an outrageous act by the Soviet Union may require—I am not sure how to deal with the metaphor—it may require turning the lights off, I guess, turning the switch off. And that has to be planned, that has to be anticipated, and it has to be anticipated on some kind of joint basis with our allies.

But as a general proposition, it seems to me that it makes life more sensible and more effective for everybody concerned, includ-

ing the private actors in the U.S. economy, if the U.S. Government pursues a policy that is predictable and that has broad public support and that is consistent.

Looking back just about 10 years in history, you recall that when the policy of détente, which led to the United States-U.S.S.R. trade and economic agreement in 1972 was underway, it sent a bit of a shiver through our allies in Western Europe. They were not quite sure where the United States was going. Now that we are perceived to be applying a policy that is a little more restrictive our European allies are similarly disturbed.

But I think it is the off-and-on and perhaps the absence of full consultation and understanding that produces those kinds of waves of reaction. They are not good. And we certainly have and will continue, as in the case of COCOM, the case of the West Siberian gas line, to maintain the very closest and, I would also characterize it as, professional discussions with our European allies and with the Japanese.

The CHAIRMAN. I welcome that statement on your part, because in the area of trade control, it is Western policy which is important and which is going to be effective as distinguished from our own domestic policy on the subject, unilateral policy.

I think we can exercise some leadership in pointing the way, but I do not think there ought to be any illusion, as we learned in the Afghanistan grain embargo, that we can go it alone and have the kind of impact that some people think we could have had.

Mr. RASHISH. It also makes it extremely difficult to develop public support in our country for any course of action if we are seen to be acting alone, others are to be seen as taking advantage of that, the legitimacy in terms of public opinion, the legitimacy of our policy is called into question and is rendered less effective.

UNILATERAL EXPORT CONTROLS

The CHAIRMAN. What is the effect of unilateral export controls on our trade and our technology development? Have you made any assessment of that?

Mr. RASHISH. I have not myself. I may call on my colleague, Mr. Kopp, to see if he has any light to shed on that.

Mr. KOPP. Outside of the oil and gas area, Senator, the unilateral controls that we now have in place have only trivial impact on our exports. There are controls on crime control and detection equipment which we apply to all countries of the world other than NATO, Japan, Australia, and New Zealand and controls that we have in effect for nonproliferation purposes, where we do, in fact, have some cooperation from other countries.

I could not make an assessment for you of the impact of the oil and gas controls on our exports. It is something with which we are very much concerned, but I could not give you a dollars-and-cents estimate of business loss through the application of these controls.

There have in fact been very few denials of license applications under those controls during the 3 years that those controls existed.

The CHAIRMAN. So you are not prepared at this time to make any estimate of what would happen if we were to expand gas and oil controls?

Mr. KOPP. No; I could not do that at this time. I would hope when decisions are reached on this, if we do indeed decide to expand those controls at that time, we would be able to provide you with estimates of the impact.

LIMITING TRADE WITH COMMUNIST COUNTRIES

The CHAIRMAN. We would look to you for that kind of opinion.

I also welcome your statement urging caution in the extraterritorial application of controls. I would like just to explore that a little bit further. What disputes or problems have arisen as a result of our assertion of some extraterritorial jurisdiction for the purpose of limiting trade with a Communist country?

Mr. RASHISH. Do you want to speak to that, Harry?

Well, we hear complaints about enforcement being largely still in the hands of the Commerce Department. We tend to get complaints from our allies when frictions arise.

Mr. KOPP. Enforcement of the Export Administration Act is in the hands of the Commerce Department. Our problem is not with allied countries; basically they cooperate in enforcement of the COCOM embargo, which for all intents and purposes is identical to our own security controls.

There is some problem with non-COCOM countries who have advanced technology of their own. And there is some problem with the export of U.S.-origin equipment through third countries. We are able, working informally, to obtain the cooperation of friendly nonalined countries, and our intelligence is fairly good in this area. I anticipate that we will be trying to improve our intelligence collection and thereby to improve our enforcement efforts.

I do not think that entering into legal battles with other sovereign governments is a useful way for us to proceed. I think we have to work on a cooperative basis.

COOPERATION

The CHAIRMAN. In other words, the key word is "cooperation."

Mr. KOPP. Yes.

The CHAIRMAN. How much cooperation do we get today in controlling oil and gas equipment?

Mr. RASHISH. Well, oil and gas equipment are not the subject of a common control system. We apply foreign policy controls unilaterally in that case.

While we do not anticipate that they will come under COCOM, at the same time as we get into this whole issue more deeply of the dependency on Western Siberian gas and the implementation of the pipeline and so on and the set of issues surrounding that, we will be discussing with certain of our allies the set of issues surrounding the question of the export and financing of oil and gas equipment.

We really have not gotten to that issue thoroughly.

The CHAIRMAN. What I am saying is except for single-source items, there really is not much control on an allied basis or a cooperative basis?

Mr. RASHISH. That is right. Where we wish to do it on a specific item, it seems to me you will have to try to construct an agreed position.

POSSIBILITIES OF TRADE WITH COMMUNIST COUNTRIES

The CHAIRMAN. As a grand finale, I am wondering if you would just look over the horizon for a moment at what you see as the possibilities of trade with the Communist countries of the world. The Warsaw Pact countries can be considered as a bloc, the Soviet Union can be considered in itself, and the People's Republic of China, what are the possibilities?

Mr. RASHISH. I think with the Soviet Union that very much depends on the evolution of our political relations and the behavior of the Soviet Union in the world. With respect to the Eastern European countries, there is——

The CHAIRMAN. But what is the capacity of the Soviet Union? Let us suppose, in the best of all worlds, we were able to reduce controls to a minimum.

Mr. RASHISH. The fact that the Soviet Union seems to be interested in acquiring most-favored-nation treatment suggests that at least they have a judgment that they have a capacity to export to the United States.

The CHAIRMAN. I have, for example, been treated to Dr. Armand Hammer's views on the almost limitless possibilities of expanding Soviet trade, certainly very much larger than it is today. Would you share that view?

Mr. RASHISH. I think that about 10 years ago we probably overexaggerated the prospects for expanded trade with the Soviet Union, and I think it depends very largely on the Soviet Union. The Soviet Union is, after all, an autarkic economy. It is an economy that does not make room in a systemic fashion for external trade. It does not wish to have the dependence on outside sources to which its industry and other activity might be vulnerable, in their view.

Unless the Soviet Union is prepared to devote resources to the production of goods and services that can compete in Western markets, it is not going to have much of a market in the West. So it is a decision for the Soviet Union, fundamentally.

The CHAIRMAN. But you feel there is a potential there should they make a decision?

Mr. RASHISH. I think there is a potential for every country who makes the right kind of market-oriented allocation of resources decision to expand international trade. There have been extraordinary examples of that in recent history. The Soviet Union has a considerable complement of human resources, capital, and technology, and could, if it wished to commit resources to the development of export markets, do so at a much faster pace than it has given any evidence.

As to the PRC, I think, while we have had a dramatic growth in trade in the short term, largely owing to trade in agricultural products, I think the progress—at least my looking over this horizon—the progress in the development and expansion of trade is likely to be measured and not explosive.

But there is always—I think you referred to it in another context—the "one aspirin per Chinese" syndrome, multiplying that by 1 billion. So this can create great fantasies of market opportunities. But markets are only sustained by income, and the Chinese are still at an early stage in their own evolution.

The CHAIRMAN. Their access to hard currency seems to be very limited.

Mr. RASHISH. YES. Although they have some good prospects, it seems to me, in the development of oil.

As to the Eastern European countries, as I indicated in my statement, it is a rather diverse group. Our policies distinguish and discriminate among those countries. The more market oriented of the Eastern European countries—notably Hungary, Yugoslavia, and, to some extent, Romania—have had a greater measure of success not only in expanding their external trade but also in developing a more sophisticated economy at home or advanced production of goods and services.

Hungary, for example, by contrast with the other Eastern European countries, is something of a showcase. In fact, this could be the grand finale, the story of Mr. Kania calling Mr. Brezhnev and explaining that they were having very serious economic difficulties in Poland. Mr. Brezhnev asked if there was anything that he could do to help.

Mr. Kania said, "Yes, if we could have about 20 carloads of grain, that would be very helpful."

Brezhnev said, "The cars would be loaded overnight and be ready to roll in the morning. Anything else we can do for you?"

He said, "Yes; we could use about three or four carloads of assorted meat products."

He said, "That will be done, too. Anything else I can do for you, dear Comrade?"

And Mr. Kania said, "How about 20 crates of bananas. That would be rather nice."

Mr. Brezhnev said, "I am not certain that Comrade Kadar grows bananas in Hungary." [General laughter.]

The CHAIRMAN. We thank you very much for your testimony today and your thoughtful views. We look forward to a continuing exchange.

Mr. RASHISH. Thank you, Mr. Chairman. I appreciate this opportunity.

The CHAIRMAN. Our next witness is the Hon. Fred C. Ikle, Under Secretary for Policy of the Department of Defense, and Dr. Oles Lomacky, Director of Technology Trade for the Department of Defense.

Mr. Secretary, please proceed.

STATEMENT OF HON. FRED C. IKLE, UNDER SECRETARY OF DEFENSE (POLICY), DEPARTMENT OF DEFENSE, ACCOMPANIED BY OLES LOMACKY, DIRECTOR, TECHNOLOGY TRADE; STEPHEN BRYEN, DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL ECONOMICS, TRADE AND SECURITY POLICY

Mr. IKLE. Mr. Chairman, I welcome this opportunity to address the subcommittee. Dr. Bryen and Dr. Lomacky are here with me today to assist with the Defense Department testimony, as may be

required. My colleague, Dr. DeLauer, regrets that he was unable to join me, as he had prior commitments.

I want to take a few minutes to summarize my points of the testimony, putting East-West trade policy in the context of national defense and national security concerns.

Ever since the end of World War II we have relied for our national defense on our technological superiority. It has been accepted wisdom that we could maintain a strong national defense with less hardware and lower manpower levels than our adversaries because of the high quality of our equipment.

Our lead in military hardware derived from the strong research and development efforts in this country that are supported by our civilian industries and to some extent directed by the Department of Defense.

And I would like to add that our lead is derived from the greater creativity of our Western democracies and our open societies. There is a clear connection between that and the reason why the Soviet Union is behind in technology. It is directly grounded in the differences between the Communist system and our system.

Yet this technological edge that we count on for our security is being constantly eroded by the leakage of technology to the Soviet Union. The damage from this leakage is considerable. It means that we must push faster and harder into new technological arenas to recapture the lead we once had.

It means we have to accelerate our own development and procurement programs to keep pace with Soviet development programs that, in part, exploit our technology. And the hemorrhage of our technology to the East means we have to spend more money on defense.

All of this, of course, adds up to an increased burden on the American taxpayer. And this increased burden on the taxpayer might often have been avoided had we taken the necessary precautions in the first place. We do have, after all, an elaborate export control system, and we make a reasonable effort to assure compliance with the controls we have established. But more needs to be done.

Let me make a few quick observations on the procedures and how the Department of Defense fits into it.

In the executive branch the Department of Defense reviews proposed export licenses in sensitive areas. Defense also makes policy recommendations on broad control areas consistent with our interest in protecting militarily critical technologies. And Defense devotes considerable resources to see that this review process is comprehensive and is pertinent as necessary. All three services and the Defense Intelligence Agency and research and engineering in Defense participate.

Initially, after World War II, these controls were seen more in a context of economic warfare. We have long moved away from that outlook. It is not now a question of economic warfare, but the controls are now directed to try to assure that strategic goods, material, and know-how in technology important to national defense that are developed in the United States do not get transmitted to the Soviet Union.

Today, the controls are limited, by and large, to high technology. We appreciate that in order to compete U.S. entrepreneurs need access to markets worldwide and that they need, in particular, quick decisions on their export applications. We have instituted a special effort, Mr. Chairman, over the last few months, to expedite the handling of export applications. And we hope that we have now an efficient system that will work to the full satisfaction of our corporations.

With your permission, Mr. Chairman, I will take a few minutes to answer in summary fashion the questions that were raised in your letter to me of August 31. The complete answers you have in my written testimony.

One of your questions concerned the current status of the implementation of the requirement of the Export Administration Act that export controls focus on militarily critical technologies and reduce at the same time unnecessary controls on product exports.

In a related question you asked to what extent my office tracks on a continuing basis the foreign availability of technologies which are militarily critical but which have to be considered according to the Export Administration Act.

Now, the efforts of the Department of Defense to develop a list of militarily critical technologies is in its final phase and the list is expected to be publicly available in October. The next phase will then be to translate this list into effective regulations with the assistance of the Commerce Department, which has the regulatory responsibility for export controls.

These findings on critical technologies have already been used selectively in the past year in working with our allies in the COCOM for the previous COCOM list review, and we expect to use them again extensively for the 1982–83 review of the COCOM list.

Let me now address, Mr. Chairman, the question of foreign availability, which I recognize is a major issue of concern to our business community. The Department of Defense does not directly examine foreign availability on a continuing basis, since this is the responsibility of the Commerce Department.

However, under the Export Administration Act, commodities cannot be denied, as you know, for export if significant foreign availability exists, except as determined by the President. Therefore, it stands to reason that in our participation in Defense in the license review process, the appropriate intelligence offices and technical experts are consulted to determine and to evaluate the foreign availability assessment on which the Commerce Department has the lead.

And we feel quite clearly that more needs to be done to meet the requirements of the 1979 act with the assistance by the intelligence community. The assessment of foreign availability is a very difficult task. The information is often not easily available.

Let me get to another question of your letter: What are the implications for your security policy if U.S. unilateral controls are significantly expanded; that is to say, if the gap widens between U.S. controls and the controls applied by our allies?

It is the policy of this administration to apply only those export controls on strategic equipment and technologies that are necessary to protect the security interests of the United States and of

the alliance. To the fullest extent possible, the cooperation of our allies and friends will be sought in the application of these controls. For this reason, I do not expect to see the gap widen between U.S. controls and those of our allies in the near future.

In fact, we have had considerable cooperation and understanding on the part of our allies, and we in the Department of Defense join the Department of State or Department of Commerce in making a determined effort each time on items important for control to coordinate with our allies so that we have a common approach within the COCOM framework.

Another question of yours, Mr. Chairman, was whether the United States and European security interests would be advanced by increasing Russian dependence on industrial and energy sectors on an interrupted flow of Western technology and spare parts. This is the argument that by making the Soviets dependent, or keeping them dependent on our equipment, we will have better cooperation on the part of the Soviet Union on our efforts to maintain world peace.

Well, the Soviet Union has long shown a thrust toward autarchy. If they cannot get their imports under their ground rules, they will try to substitute their own equipment with, of course, attendant delays, or they will try to, if it is a question of technology that can be acquired through stealthy imports or smuggled equipment, they will try to use that route.

The one exception, of course, in which the Soviet Union does depend on imports in a substantial way is grain.

Another of your questions was what role our office plays in the review of export license applications to determine what technology might be transferred and the significance of the technology to the military strength of the Soviet Union. This is a critical responsibility of the Department of Defense, and we have improved our staffing capability to make these determinations quickly and based on the most advanced information applicable.

Finally, the last question I wanted to comment on is whether our office has studied the effect on Soviet military potential of past transfers of Western technology. We have not made an overall comprehensive study in my office, but the intelligence community has made repeated assessments of the impact of the technological transfer.

The question of the technology transfer appears in many different ways and shows up in Soviet military hardware improvements in many areas. Often, after a number of years, it is possible to trace a specific Soviet improvement which will cost our taxpayers a great deal of money in terms of catching up with our defense effort to technology transfers from the United States or from the West.

By way of wrapping up my opening statement, Mr. Chairman, just let me show you as an object illustration that printed circuit boards which were taken from civilian Soviet equipment have been analyzed and are based on U.S. technology of 1975 vintage, which were transferred and are in almost every aspect direct copies.

These circuit boards could be used and probably are being used for Soviet military equipment and have probably cut short their development time by a number of years. This was only one illustra-

tion out of a great many that our intelligence assessment has turned up.

Thank you, Mr. Chairman.

[Mr. Ikle's prepared statement follows:]

PREPARED STATEMENT OF HON. FRED C. IKLE

Mr. Chairman, I welcome the opportunity to address the Subcommittee on International Economic Policy. Dr. Bryen of my staff and Dr. Lomacky of Under Secretary DeLauer's staff are here with me today to assist with the Defense testimony as may be required. Dr. DeLauer regrets that he is unable to join me because of prior commitments.

I want to discuss East-West trade policy in the context of our national defense effort and national security concerns.

Ever since the end of World II, the United States has relied, for its national defense, on a certain technological superiority. It has been the accepted wisdom that we could maintain a strong national defense with less hardware and lower manpower levels than our adversaries because of the higher quality of our equipment.

Our lead in military hardware derived from the strong research and development efforts, in part supported by the Department of Defense, and by our civilian industries, and—I would like to add—derived also from the greater creativity of our Western democracies.

Yet, the technological edge that we count on for our security is being constantly eroded by the leakage of this vital national resource to the Soviet Union. The damage from this leakage is vast. It means that we must push faster and harder into new technological arenas to recapture the lead we once had. It means we have to accelerate our own development and procurement programs to keep pace with Soviet deployment of new weapons systems. And it means we have to spend more money on defense sooner.

All of this, of course, adds to the burden on the American taxpayer. Often-times it is a burden that might have been avoided, had we taken the necessary precautions in the first place. We do have, after all, an elaborate export control system and we make a reasonable effort to assure compliance with the controls we have established.

Within the Executive branch, the Department of Defense reviews proposed export licenses in sensitive areas. The Defense Department also makes policy recommendations on broad control areas, consistent with our undertaking to protect militarily critical technologies. The Department of Defense devotes considerable resources to see to it that this review process is as comprehensive and pertinent as necessary. All three services, the Defense Intelligence Agency, our Research and Engineering and Policy elements are involved in developing the Department of Defense position.

When controls were first established, after World War II, they were seen as a type of economic warfare against the Soviet bloc. Beginning in the late 1960's the older approach was considerably revised. No longer was "economic warfare" the object of our effort. Instead, the control effort was redirected to try and assure that strategic goods, material, know-how and technology important to national defense remained under control.

Today controls are limited to high technology. We appreciate that in order to compete, U.S. entrepreneurs need access to markets, and that quick decisions are needed on export applications. We are working hard in the Defense Department to see to it that we complete the review of export cases more quickly, well within the statutory limits.

With your permission, Mr. Chairman, I will now proceed to answer the questions raised in your 31 August 1981 letters to the Defense Department. (Where appropriate, I will respond by subject because some of these questions overlap.)

Question 1. What is the current status of implementation of the requirement in the Export Administration Act of 1979 that export controls focus on militarily critical technologies while reducing unnecessary controls on product exports?

To what extent does your office track, on a continuing basis, the foreign availability of technologies which are militarily critical? What role is your office playing in the revision of the list of militarily critical technologies?

What role will your office play in the assessment of foreign availability of goods and technology subject to U.S. export controls?

Answer. The Defense Department's efforts to develop a list of militarily critical technologies is now in its final phase and is expected to be publicly available in October. The next phase will be to translate this list into effective regulations, with the assistance of the Commerce Department, which has the regulatory responsibility for export controls. However, the findings of the militarily critical technologies

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review have been used selectively during the past year in formulating COCOM List Review proposals, and are expected to be used extensively in developing U.S. proposals for the 1982-1983 List Review.

The Technology Trade office (Research and Engineering) has the day to day responsibility for the direction and management of the Critical Technologies Program. At the Center of this effort is the Critical Technologies Coordination Committee chaired by Research and Engineering with representatives from the Services, appropriate Defense agencies including the Defense Intelligence Agency, and other interested government agencies. During the past year, the Committee has completed the review and updating of the 1980 Militarily Critical Technologies List (MCTL) and the work of contributing agencies, contractors, and industry technical representatives. The list is now more comprehensive and specific so that we can better use it as a tool to expedite the processing of export control cases in the Defense Department.

Let me address the question of foreign availability. The Defense Department does not examine foreign availability on a continuing basis, this is the statutory responsibility of the Department of Commerce. However, under the Export Administration Act of 1979 commodities cannot be denied for export if significant foreign availability exists, except as determined by the President. Therefore, as a part of the Defense Department's license review process, the appropriate intelligence offices and technical experts are consulted to determine if there is foreign availability of quality sufficient to be considered as a factor for license approval. We feel much more needs to be done to meet the requirement of the 1979 Act in the intelligence community.

Question 2. What are the implications for U.S. security policy if U.S. unilateral export controls are significantly expanded; that is, if the gap widens between U.S. controls and those applied by our allies?

How important are exports and foreign investment to the U.S. companies which are in the lead in the development of new commercial technologies which could have military application? What effect on the long-term development of U.S. technology would arise from a substantial widening of unilateral U.S. export controls and their rigorous enforcement with respect to foreign subsidiaries of U.S. companies?

Answer. It is the policy of this Administration to apply only those export controls on strategic equipment and technologies necessary to protect the security interests of the United States, in conformity with the 1979 Act. To the fullest extent possible, the cooperation of our allies and friends will be sought in the application of these controls. For this reason, we do not expect to see the gap between U.S. controls and those of our allies significantly widen.

As to the overall importance of U.S. export controls in the competitiveness of U.S. companies, we should keep in mind that U.S. strategic trade with proscribed countries is not very large—less than 1 percent of total U.S. exports.

Question 3. Would United States and European security objectives be advanced by increasing Russian dependence in industrial and energy sectors on an uninterrupted flow of Western technology and spare parts, so-called "reverse dependence?"

Answer. This is an old argument that seeks to maximize the short-term economic advantages of trade while giving insufficient attention to the economic and industrial policies of the Soviet Union and its allies. The Soviet Union has long professed a policy of autarky, minimizing dependence on the West for strategic goods. This policy requires that the Soviet Union buy manufacturing technologies whenever possible and copy critical manufacturing equipment to avoid any significant dependency on the West. The one exception to this is grain, and if the Soviet Union could buy the technology to provide a more condusive condition for growing wheat they would not buy grain from the West.

Question 4. What role does your office play in the review of export license applications to determine what technology might be transferred and the significance of the technology to the military strength of potential adversaries? How does your review of technical factors differ from the review of licenses by the Department of Commerce?

Answer. Under Section 10 of the Export Administration Act of 1979, the Defense Department is responsible for the technical review of export licenses provided by Commerce. It may be helpful if I describe how a license moves through the Department to final resolution.

When the application is first received by Defense, it is screened by the Office of Technology Trade (Research and Engineering) for sufficient information to evaluate the case. This includes the technical characteristics of the commodity, end user and end use statements. Those cases which lack adequate information are returned to Commerce so they can obtain the information from the applicant. Next, the case is referred to technical experts in Defense, the services, NSA, DIA and other agencies

who provide an assessment and recommendation. These assessments include potential military applications, the risk of national security if diverted to military use and the relationship of the license to militarily critical technology. The Office of Technology Trade reviews these assessments and the risks to national security while an overall Defense review is made by my office to develop a final Defense position on the license applications.

Question 5. Has your office studied the effect on Soviet military potential of past transfers of Western technology? If so, What is your assessment of the overall impact, the proportions of clandestine versus approved transfers with significant impact, and the proportions of each which occurred with U.S. jurisdiction versus foreign jurisdiction?

Answer. The Defense Department has not independently studied the effect on Soviet military potential of past transfers of Western technology. This has been the responsibility of the intelligence community. I can recommend, if you are interested, contacts in the intelligence community who can brief the Subcommittee on this question. I can only say here, that the past effects of Western technology transfers from all sources on Soviet military capabilities have been substantial.

Question 6. What assessments has your office made of the legal and administrative capabilities of allied governments to control technology transfer to communist countries.

Answer. The Defense Department has not undertaken an independent study of these capabilities. Defense is represented on the Economic Defense Advisory Committee, chaired by State, which has the responsibility for reviewing international cooperation and controls. The State Department during the past year has looked into this question and would be better able to respond in detail.

Mr. Chairman, this concludes my prepared remarks. We are prepared to answer any further questions.

FOREIGN AVAILABILITY

The CHAIRMAN. You say that the Department of Defense has not examined foreign availability on a continuing basis?

Mr. IKLE. Correct. That is the responsibility of the Department of Commerce. We do, of course, consider the argument about foreign availability, and they are weighed into the final decision in accordance with the Export Act.

The CHAIRMAN. Let me pose a hypothetical case to you. Let us suppose we were going to make an AWACS sale to Albania. We will make it a sufficiently unlikely case that we cannot embarrass you in any way. Let us say that we were going to sell AWACS to Albania. Would you in such a case then look at the Nimrod situation?

Mr. IKLE. Definitely. You have broadened the context of the question from what I understood it to be. I understood it to be in the context of the Export Administration Act. In the broader case of arms transfers or other Department of Defense policies, we obviously consider foreign arms exports, foreign technology exports that might compete with ours.

So the answer there definitely is "Yes." My answer was on a more narrow basis.

The CHAIRMAN. And on the more narrow basis, you are saying not in the controlled items under the act?

Mr. IKLE. That is right, just for the technology transfer, the Export Administration Act for the technology transfer.

The CHAIRMAN. In your response to the question on the subject of whether Western security objectives are advanced by increasing Russian dependence on the Western economies, how much weight do you give to the mutual ability of each side to cut off the other?

Obviously, the Western European countries could be jeopardized to a degree if a pipeline is built, if it goes into service, if it supplies

a certain percentage of energy to the economies of each of the Western European countries, whether it is 5, 10 or 20 percent, in each given case.

Presumably, they would operate with that contingency in mind and have some sort of contingency plans. But it would inflict a certain degree of economic disruption, and, therefore, they are hostages of the Soviet Union to the extent that disruption could occur.

HARD-CURRENCY RECEIPTS

What about the reverse, hard currency, which is presumably one of the major purposes that the Soviet Union has in constructing the line and developing this system of energy sales, must be important to the Soviet Union. How about the disruption to the Soviet economy of a sudden interruption in these hard-currency receipts?

Mr. IKLE. Well, for a longer period, or the loss of the hard-currency receipts, of course, could affect the Soviet ability to use hard currency for buying equipment which they may want to use for military or civilian purposes or for buying grain.

But hard currency can be stored, so to speak, and saved and balanced out over several years, whereas the flow of natural gas is a daily consumption issue. And, therefore, throttling the export of natural gas to exert political pressure at a time, say, of an oil crisis that may have its origins elsewhere, would be a more potent instrument for political influence than the countervailing effect of the loss of the hard currency from these exports.

Over the long run, you are right, Mr. Chairman. The hard currency that would flow into the Soviet Union as a result of the natural gas exports, of course, would figure very importantly in the Soviet economic calculations and, indeed, are also a matter of concern to us from the point of view that this hard currency can then be used to acquire further technological equipment which will further facilitate the buildup of the Soviet defense industry.

The CHAIRMAN. So it is a subject on which there is something to be said on each side.

Mr. IKLE. Well, no, I am afraid there is something to be said about both things coming down on one side, in that construction of the gas pipeline, particularly which requires large dimensions in gas flow, in that you generate a Western European dependence in the hard midwinter days and in a Mideast oil crisis, on Soviet goodwill to furnish natural gas, which could have a devastating political effect if the dependence is large.

Second, you generate a cash flow for the Soviet Union which the Soviet Union, in turn, can use to further expand its defense industry.

The CHAIRMAN. Of course, we reduce that devastating effect very substantially by the construction of adequate coal export facilities in Baltimore, Md. [General laughter.]

Mr. IKLE. We are very, very much in favor of expanding our coal exports to Europe, and the administration has made some efforts, as I am sure you have been briefed on, and that is indeed a direction in which we should move.

The CHAIRMAN. I am glad to hear you say that. I hope you will say it many more times and in many places.

Mr. IKLE. I have been saying it in internal meetings as well.

The CHAIRMAN. Good, because that effort seems to me to be slowing down a little bit. I think, not only in economic terms but in the strategic terms in which we are discussing it, it has a great importance.

Mr. IKLE. Exactly.

The CHAIRMAN. I am interested in the exhibit that you brought and in what you know of its history. Was this the result of ordinary commercial sales?

Mr. IKLE. I will let Dr. Bryen answer this question.

Mr. BRYEN. Some of its was, and some of it probably was not. We can only guess. It is very hard to go backwards and determine which factory in the Soviet Union made that particular circuit board or which factory made that particular microcircuit.

But let me say this. The likelihood is that the circuit board technology was transferred legally. The likelihood is that the microcircuit technology was only partially a legal transfer. Some of it was probably stolen.

TECHNOLOGY TRANSFER

The CHAIRMAN. Well, now, that raises the subject of how much of this technology transfer occurs as a result of clandestine transactions. There is a substantial part of the transfer which has occurred clandestinely; is that not true?

Mr. IKLE. That is correct. And it is a matter of continuing concern both for us for our allies. And if you wish, maybe on a classified basis, we could give you a further briefing on these issues.

The CHAIRMAN. I think we would be very interested, because we are talking about serious effects on the U.S. defense effort. The statement has been made not only by you, but by Mr. Brady, that there are higher defense costs as a result of this technology transfer. And it seems to me that if these serious results are flowing from this, we ought to understand exactly what this traffic is, whether it is the legal traffic which is the primary source of the problem or whether it is clandestine traffic which is the primary source of the problem or whether it is the acquisition through non-U.S. sources, through third-party sources, that is the problem.

Mr. IKLE. In essence, it is all three. The first efforts are directed toward acquiring openly U.S. technology. If that is plugged up, efforts are made to get it through allied or other Western sources. And if that is brought under control in our COCOM and related efforts, then clandestine transfers are attempted.

The CHAIRMAN. While I think it is extremely important to plug up the hole, it is equally important to plug up the right hole. And it could be damaging to the United States to plug up the wrong hole.

Mr. IKLE. [Nods affirmatively.]

The CHAIRMAN. As Mr. Brady said in his testimony, we are anxious to continue profitable economic activity where that is in the national interest.

Mr. IKLE. Right.

The CHAIRMAN. Plugging up the wrong hole, of course, creates burdens on the economy.

Mr. IKLE. And plugging up the illegal or clandestine transfer is particularly important because there the most advanced technology may be at stake.

The CHAIRMAN. This is something which, if we need to pursue it further in executive session, we should do it on another occasion and make the necessary arrangements to do that, because understanding exactly what the problem is is necessary in order to find the right solution.

GAP TO WIDEN

Let me ask you whether you expect the gap between the United States and allied technology controls to widen? You stated that we have ample evidence of the greater value and the greater volume of our allies' trade with the East.

We know that trade is much more important to most of our allies than it is to us. It is a larger proportion and percentage of their gross national product than it is of ours and, therefore, is their lifeblood.

What can we expect, this being the case, if we go to them and ask them to reduce their economic activity with the East?

Mr. IKLE. Well, it is worth noting that our effort on technology transfer has not been without success. I mean the COCOM institution itself, by and large, given the competing and conflicting business interests that you have referred to, Senator, is really quite a remarkable achievement.

In the past, maybe we in the United States have not exerted the right leadership. We ourselves have often asked for exceptions on the COCOM list and thus have made that effort deteriorate unnecessarily.

Now we are determined to strengthen it. And I think we have a considerable understanding among our allies as to the importance, particularly in high technology.

Also, we can use our powers of persuasion and influence in many instances. The allies want to import advanced U.S. technology for their needs. We are, as much as possible, pleased to make these transfers, but we can point out that obviously there have to be firm restrictions on retransfer.

When it comes to larger pieces of equipment—factories and pipelines and the like—there are differences with the allies which often come out more strongly. We do have to keep in mind, though, that there is considerable financing associated with these exports, and often we have cases where the allied interest was not too well served in the interest of a particular line of exporting equipment. And 3 or 5 years later we came to regret it.

The assumption is made that the credit rating of the Soviet Union is very high. The assumption was made that the credit rating of Poland was high. The European banks are enormously extended on Poland. We now read in the newspapers about their second thoughts on the credit rating in that case. So they may be making a mistake from the business point of view alone.

The Italians, as you know, have exported a Fiat plant for manufacturing of Fiat cars. They now discover that these Fiat cars are being sold in Europe in competition with their own Italian cars.

The CHAIRMAN. Overall, I do not think they are unhappy with the transaction, though; do you?

Mr. IKLE. Well, there were some transfers that they became unhappy about afterwards. To some extent, the day of reckoning has not yet come, because the credits are still being accumulated.

FOREIGN INVESTMENTS

The CHAIRMAN. What about foreign investments of U.S. companies and the extent to which exports and foreign investment are important to leading American industries, what part does this play in the desire of these companies to export technologies?

Mr. IKLE. The investment of U.S. corporations abroad?

The CHAIRMAN. Yes.

Mr. IKLE. I think, to some extent, it may, of course, put their technology under foreign control. If a U.S. company builds a plant in France, then that plant would be under French jurisdiction.

Maybe Dr. Bryen can elaborate on how it would affect export of technology controls.

Mr. BRYEN. It would still require a license to export from this country to France, even if it is a subsidiary of an American company.

APPLY EXPORT CONTROLS TO AMERICAN SUBSIDIARIES

The CHAIRMAN. Let us think about metallurgy, for example. Pechiney, the French metals company, has a number of American subsidiaries or has some American subsidiaries. Can we apply export controls to the American subsidiaries of Pechiney?

Mr. IKLE. Dr. Lomacky, do you know?

Mr. LOMACKY. Mr. Chairman, excuse me, but I am not sure. Did you refer to export controls vis-a-vis export controls to the Warsaw Pact or exports from the United States to the French?

The CHAIRMAN. Yes; let us say Warsaw Pact.

Mr. LOMACKY. Well, if it is the export to the Warsaw Pact, that would depend on whether this particular technology is controlled by COCOM. If it is controlled by COCOM, then the country from which the origin of export comes about has to submit that as the COCOM exception request.

The CHAIRMAN. Let us say this is a product that is developed in the United States by an American company which happens to be owned by a French company.

Mr. BRYEN. It would be subject to U.S. export controls.

Mr. LOMACKY. Yes; it would.

The CHAIRMAN. There is no way that we could unilaterally control the parent company in France, though? Or is there? I should not state my question in the negative.

Mr. BRYEN. Well, it would depend. We could not unilaterally control the company in France. But again, it would fall under the COCOM system, and if it were an item that was controlled under COCOM and they wished to export it to the East, they would still have to make a request in this particular case for an exception to the rule.

There is one other point on that. We sit in that group, too, so we have something to say about it.

The CHAIRMAN. So we again get back to the question of allied cooperation in this whole matter.

Mr. IKLE. Right. Of course, there might also be license restrictions. If it is a Department of Defense technology developed under Defense funding, then we would have license control on it.

UNILATERAL CONTROLS

The CHAIRMAN. Let us reverse the situation. I gave you a French subsidiary in this country. What about an American subsidiary in France, are we in a little better shape to impose unilateral controls there?

Mr. IKLE. Well, we may have a license control. Then we will, as pointed out, have the COCOM agreement to cover the technology.

NATIONAL SECURITY PROVISIONS

The CHAIRMAN. We have discussed with other witnessess the desirability of placing controls on oil and gas equipment and technology under the national security provisions; that is, section 5 of the act. What is your position on that?

Mr. IKLE. The arguments for putting controls on oil and gas equipment that would lead to such projects as the pipeline and a major export program of the Soviet Union to our allies, the arguments from the national security point of view, are significant. I think we touched on it earlier.

On the one hand you have the dependence, let us say, of the Japanese or the Germans or other allies on the continuing flow of energy resources. And while in normal days that would not be used politically, it is precisely in a crisis situation that you would worry. This is as we discussed before.

Second, as I mentioned before, the exports would provide an increased cash flow to the Soviet Union. We have been observing over the past 10 or 15 years a Soviet buildup in foreign cash availability apart from grain imports as used by them to strengthen their defense industry. It would thus give them wider room or wider berth to further accelerate their defense buildup.

The CHAIRMAN. Then what you are saying is hard currency is of importance to the defense efforts of the Soviet Union.

Mr. IKLE. In a period such as this one where we are unfortunately, in this intense competition of the Soviet arms buildup, that is right. If you had a genuine period of détente such as we envisaged in the late 1960's, which we thought we were getting into, where commercial relations dominate and the military competition is downplayed and reduced, then this would not be the case.

MILITARY-INDUSTRIAL EQUIPMENT

The CHAIRMAN. So if what they buy besides grain is military-industrial equipment?

Mr. IKLE. Not exclusively, of course, but, if it is largely industrial equipment that will help build up their defense capability, it is not consumer goods. They are not importing cars from Detroit or refrigerators or such items that we would normally export to other countries.

The CHAIRMAN. What about direct military items?

Mr. IKLE. We would not sell direct military items.

The CHAIRMAN. But other people might sell them?

Mr. IKLE. Yes. Others might.

The CHAIRMAN. But they are not importing any great quantities of those things either, such as tanks or planes?

Mr. IKLE. No; that is right.

The CHAIRMAN. But they are importing defense-industrial items?

Mr. IKLE. Machine tools, equipment to make trucks, and computers.

The CHAIRMAN. On that basis, of course, you could make an argument that any trade which produced hard currency for them was a bad idea.

Mr. IKLE. That is right. Hard currency is fungible and could be used for alternative purposes. But as you know, the trade with the Soviet Union is really not that large, looked upon in the larger context of international trade.

The CHAIRMAN. But Western trade is.

Mr. IKLE. The trade, even with Western Europe, is modest. But if you throw in a big project like the pipeline, you may make a major stepup in this cash flow.

The CHAIRMAN. So currency earnings matter in the whole question of trade matters.

Mr. IKLE. Absolutely. And that is easily illustrated by countries which have quickly, because of energy exports, acquired a lot of hard currency. Think of the influence that countries like Libya or, for that matter, Saudi Arabia have gained because of their acquisition of currency.

The CHAIRMAN. But by the same token, I suppose, you have to say it matters both ways: It matters to them, and it matters to us.

Mr. IKLE. If I understand you right, you say there is a Soviet interest in having a flow of currency. Indeed, there is.

BROAD STRATEGIC IMPLICATIONS OF TRADE

The CHAIRMAN. Finally, let me just ask you the question that I asked Mr. Rashish. Is your office considering the kind of broad strategic implications of trade—and again, as an example, the sale of gas and oil equipment technology—that, if we withhold that technology and some of it is uniquely American, we can probably slow down energy production, energy development in the Soviet Union, by a perceptible number of years.

But we do that having the knowledge that the CIA thinks the Soviet Union will become an oil-deficit nation sometime within the next few years, so you have to presume that they will in some way enter the international energy market. At a very minimum their entry into the market would raise the price, would increase the bidding. And in the worst case, they would become disruptive actors in the international energy market. So where does our interest lie?

Mr. IKLE. I am aware of the theory that increased Soviet energy production is in our interest and that it would reduce the demand for energy and thus would lead to lower energy prices. That would be true if you had more peaceful relationships.

But given that so much of the Soviet economic resources are devoted to their military program, which is so much larger than in

the West, we would rather have them take resources out of their military program and build up their energy production and other civilian production in that way, than use German, French, or U.S. bank credits, to import steel pipe from the West.

Moreover, the loans save them the pressure on their military budgets because, for the short term, important for the next several years, they build the pipeline on the back of Western credits.

It is this combination of Western financing and long-term repayment by sales to the West that makes the West Siberian pipeline undesirable from a security point of view.

If they were making a cutback in their military programs, for example, and deciding, "Let us develop our energy resources. That is more important," I think the picture would look different to us.

The CHAIRMAN. I think that is an important distinction. It would make a big difference.

We are faced, however, with a situation over which we have not been able to exercise control and despite the views that we have expressed to the Federal Republic of Germany, to other countries in Europe, Europe is going ahead on a cooperative basis with the Soviet Union to construct the pipeline.

RIGHT TO PARTICIPATE

Now, that, I think, we have to accept really as a fait accompli in this situation. Is there a point at which it is counterproductive for us to continue to refuse to participate in this action? Is there a point beyond which we are cutting off our own nose by denying American companies the right to participate?

And I take this as an example of, obviously, other cases that are going to arise as the world gets more and more crowded in the next 20 years.

Mr. IKLE. Yes; that could be. And it all depends on how our efforts are handled. It is not a black-and-white story. I think we have convinced the allies in our friendly discussions with them, and they have convinced themselves that there is a danger of too large a dependence on Soviet oil and gas imports. I think the project has been scaled down, in part, for fiscal reasons. The project is not all that secure; it has been long in coming. The banks hesitate. The banks see what happened to their credits to Poland. They are not sure something like that may not happen to the Soviet Union someday.

The alternative energy sources could be more encouraged, including particularly the coal exports from the United States, but also natural gas from other sources.

So by working together and addressing the issue as a common problem in the Alliance, while we may not get our way precisely, I think we may get an outcome that is much closer in line with the security interests of the United States and, for that matter, of the Alliance as a whole.

The CHAIRMAN. Well, we are very grateful to all of you for being here today. This is a subject of enormous interest. Your testimony has outlined the stake that the United States has in it. As I have said heretofore today, I think this is an enormously important exercise for us to try to identify the principles that ought to guide Western policy.

Mr. IKLE. Exactly.

The CHAIRMAN. I would emphasize that it is Western policy, because again and again in your testimony you pointed out that the only sound policy is one that has the support of our major allies and that any attempt on our part to go it alone can have only a limited degree of success.

So I am grateful for your being here, and I would only request that we continue this exchange of ideas as we pursue this policy.

Mr. IKLE. Certainly.

The CHAIRMAN. Thank you very much.

Mr. IKLE. Well, thank you Mr. Chairman. It has been a pleasure to appear before your committee.

The CHAIRMAN. We will keep the record of this hearing open for the balance of this week.

The committee will stand adjourned, subject to call of the Chair.

[Additional questions and answers follow:]

DEFENSE DEPARTMENT'S RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED FOR THE RECORD

EXPORT CONTROL POLICY

Question 1. Your responsibilities at Defense include a role in export control policy, that is, policy toward East-West trade and technology, but it is not clear from the information supplied to the Committee how your responsibilities will be integrated with the separate offices in the Defense Department which review export license applications and make recommendations for new controls on exports. Will you be directing the activities of these offices as well? How will policy and the licensing process be integrated in the Defense Department?

Answer. My office will make Defense Department final determinations for export case processing, but we will rely on Defense Research and Engineering (RD&E) to provide technical support and expertise. My staff will also be the Defense contact point for other agencies concerned with export control policy and will represent Defense in interagency and international fora dealing with East-West economic relations and technology control policy. We will represent the Defense Department, with the technical support of Defense Research and Engineering, in incorporating the Militarily Critical Technologies List (MCTL) into specific controls on exports. My office will play a similar role representing Defense in developing proposals and conducting negotiations on COCOM issues with our allies.

Question 2. Controls on U.S. exports directed at Russia and Eastern Europe can become controls, in effect, on U.S. exports to all countries, including our allies. The controls on U.S. exports of oil and gas equipment and technology, for example, apply only to U.S. sales to Russians, the controls would have to apply to U.S. exports anywhere in the world for any purpose, would they not? But applying controls so extensively would significantly hamper U.S. exports, adversely impact U.S. relations with many nations, and encourage foreign competitors to rush to fill Soviet orders. Do you recognize a dilemma here, and how do you propose to resolve it? Could our allies be persuaded to stop exporting oil and gas equipment and technology to Russia and Eastern Europe?

Answer. The potential for exports of technology through third party countries always exists, but in many cases, direct controls on exports to the Soviets can be effective. U.S. law explicitly prohibits the re-transfer of American origin internationally controlled equipment and military technical data to third parties without the acquiescence of the USG and a license is required for the initial export. The re-export of dual use technical data to third countries also requires approval by the USG, but no license is required for the initial export of technical data to allies and neutrals. I believe defense interests require an effort to tighten controls on the export of technical data.

There certainly is a dilemma here between our efforts to restrict technology transfers and the possibility that so doing may put American firms at a disadvantage and result in economic losses for the United States. This Administration is very concerned about technology transfer that benefits the military potential of the Soviet Union and aids its massive arms buildup. We believe our allies can be persuaded to cooperate with us in restricting trade that is militarily important to the Soviets. We realize that our allies have some difference in perspective with us

on these issues. But we believe that these differences stem in part from the failure of previous administrations to communicate the need for technology transfer restrictions on militarily related industry.

Question 3. The Export Administration Act of 1979 called for development of a "militarily critical technologies" approach to export controls. How will you implement that mandate? Have consultations been held with our allies on the possibility of redirecting COCOM controls to focus on militarily critical technologies? Will you personally attend COCOM meetings?

Answer. Defense Research and Engineering (DR&E) has the responsibility for developing a Militarily Critical Technologies List. This list has identified the militarily significant technologies and keystone manufacturing equipment which require control for export to proscribed countries. My office will represent Defense with DR&E in discussions with Commerce on translating the list into specific commodity and technical data controls. We have told our allies that we will be emphasizing the identification of militarily critical technologies during the review of the COCOM list in 1982–83. We expect to have their cooperation in more precisely defining what should be controlled in the interest of Western security. Staff members from my office will participate and represent the Defense Department in the 1982 COCOM Lists Review preparation and negotiations. Research and Engineering will provide technical leadership in developing proposals and in technical discussions with our allies. I will attend any meetings where I believe I can further the adoption by our COCOM partners of U.S. policies.

Question 4. Would you favor transferring the formation and administration of export control policy from the Commerce Department to the Defense Department? Why?

Answer. We do not now favor transferring the formation and administration of export control policy from the Commerce Department to the Defense Department. The Department of Defense's national security responsibilities can be adequately served by the present procedural arrangement and the assignment of responsibility for export functions outlined in Section 5 of the Export Control Act. Defense is responsible for making recommendations on the potential military use and international security policy implications of high technology commercial products considered for transfer to proscribed countries. It would require an increase in our resources to take over all export control functions, including the licensing of West-West trade which is the much larger part of the Commerce licensing review not participated in by Defense. However, I believe that that Defense concerns need to be given significantly greater weight than they are now accorded in the current administrative arrangements.

Question 5. Legislation has been introduced by Senator Garn which would transfer export control policy into a White House Office of Strategic Trade. Do you support that legislation?

Answer. I have not yet reviewed Senator Garn's proposal to the point where I can make a recommendation on it.

Question 6. From time to time it has been suggested that arms export control policy, which is administered by the State Department, and export control policy, administered by the Commerce Department, ought to be consolidated in a single agency. Would you favor such consolidation?

Answer. It is too soon for me to have come to a considered judgement on your question.

Question 7. What are your views on consulting with the Congress and sharing information, including the sources of your information, with persons with appropriate security clearances? Will you consult with the Foreign Relations Committee on export control questions?

Answer. National policy can only succeed with the Executive and Legislative Branches working in close harmony. I will always be ready, and indeed anxious, to consult with the Committee.

Question 8. Critical technologies increasingly are developed first in the commercial sector—defense applications are discovered later; will this trend require controls on export of all new commercial technology developed by U.S. business? Would you favor expanded controls on exports of U.S. commercial technology, including technology for which no military use has been found? If so, what impact will controls have on the commercial incentives for technology development?

Answer. One source of concern is the difficulty that arises when commercial technology is more advanced than military technology. The development of the MCTL is intended, in part, to deal with this. If we are successful in promulgating an intelligent MCTL we will have gone far toward solving the problem you identify.

Question 9. The Export Administration Act of 1979 will be up for renewal in 1983. What changes in the Act do you personally favor?

Answer. At this time we do not have any specific recommendations for changes in the Export Administration Act, but I may want to recommend changes before the renewal in 1983.

COMMERCE DEPARTMENT'S RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED FOR THE RECORD

Question 1. After the imposition of our grain embargo on the Soviet Union, the press reported that Soviets purchased large amounts of grain from East Germany. At the same time, our grain exports to East Germany increased substantially. Clearly the U.S.S.R. was draining grain from other Eastern Bloc countries which were in the turn replacing their domestically-produced grains with foreign—and in some cases United States—equivalents.

How can we deal with such circumvention? Even in the face of coordinated allied responses, does the U.S.S.R. not have the means to nullify our actions via its trade with the Eastern Bloc and nonaligned nations? Could we achieve a unified allied position if our trade limits directed at the Soviets needed to be applied to the Eastern Bloc countries, too, in order to be effective?

Answer. This Administration is committed to achieving a balance between our economic interests in the trade area and our national security and foreign policy interests. Last July at the Ottawa Summit, President Reagan appealed personally to his counterparts over the need to improve and strengthen the present multilateral system of trade controls on strategic technologies and goods to the Soviet Union. The leaders agreed to high-level consultations on the current multilateral system of controls. In this regard, we have begun a dialog with our allies on strengthening the multilateral export controls system in place through the Coordinating Committee (COCOM). High level meetings will be held within the next few months.

Consistent with this tightening of controls on high technologies, we intend to decontrol some products at lower technology levels. The purpose in pursuing this approach is to avoid interference with legitimate non-strategic trade without jeopardizing our national security interests, and the business community understands that.

While seeking to strengthen international security controls, the Administration is taking into account the understandable reaction of the U.S. business community to export controls. U.S. companies support the Administration in according priority to national security concerns. They also want a consistent and predictable licensing policy, which the current policy review addresses.

According to the Department of Agriculture, there is not concrete evidence that the Eastern European countries were shipping inordinate amounts of grain, foreign or domestic, to the Soviet Union during the embargo. There are suspicions that a small amount of this may have taken place; however, the Eastern Europeans are extremely limited in their physical ability to move large amounts of grain to the U.S.S.R. due to inadequate ports, roads, and railroad facilities.

Regarding domestic grain, the needs of the Soviet Union are so vast that Eastern Europe could not begin to meet them with their own production. The only way they could contribute more than minimally would be to decrease livestock production dramatically; it is doubtful that the Soviets would take that route, given the civil unrest currently occurring in Poland due to this type of shortage.

The heart of your question concerns our unilateral and multilateral policy toward the Eastern Bloc. We differentiate between Bloc countries and the U.S.S.R. in our export control policy because we feel that the Soviet Union poses the largest threat to the Western Alliance and to world peace.

This Administration realized that export controls must be multilateral to be truly effective. This is the thrust of our efforts in COCOM—to convince our allies that controls on goods and technology which may serve to strengthen Soviet military capability must be tightened. We are optimistic that our allies share this view.

Question 2. From 1970 on, the United States actively encouraged trade opportunities with the Soviet Union. Many American companies acted on this change in relations by expanding their sales in communist countries. Dresser Industries was one such company whose pursuit of trade was consistent with U.S. policies at that time.

Last year, the previous administration revoked the Dresser license for the last phase of their drill bit factory contract with the Soviet Union. I understand Dresser Industries has applied to renew its export license and has also appealed last year's revocation. How will the United States Government deal with companies that were encouraged by past U.S. policy to trade with the Soviets and are in the process of completing contracts negotiated at that time?

Answer. Export license applications must be evaluated under prevailing circumstances and policies. When the Soviet Union invaded Afghanistan, some companies, including Dresser, had their license applications suspended. These applications must be reviewed on a case-by-case basis in the context of existing policies.

Although this Administration will consider the extent to which a contract has been performed, our national security and foreign policy interests must take precedence.

[The following letter was subsequently supplied for the record:]

THE UNDER SECRETARY OF DEFENSE,
Washington, D.C., December 14, 1981.

Hon. CHARLES H. PERCY, *Chairman, Committee on Foreign Relations, U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: Under Secretary Ikle has asked me to respond to your letter of 13 October 1981, which requested data comparing the current average time for handling of export cases within the Department of Defense with that of 1980 and 1979.

While we do not have the specific data you requested, the average time for processing export cases within the Department of Defense has decreased significantly and is continuing to improve. In order to get within the statutory time limits, we, earlier this year, established two goals: (1) to process all cases received after 31 July 1981 within the sixty-day maximum time limit, and (2) to eliminate the existing backlog (those over sixty days old) of cases by 15 October 1981. We have met these goals.

We are now completing about half of the cases being received within thirty days, and are rigidly enforcing the maximum statutory time limit of sixty days. We have also eliminated the known Defense backlog of older cases.

I hope that this satisfies your concerns.

Sincerely,

JAMES P. WADE, Jr., *Acting.*

[Whereupon, at 11:57 a.m., the subcommittee adjourned, subject to call of the Chair.]

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